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Introduction

Following publication of the Business Guide in 2015, the EU-Indonesia Business Network (EIBN) is now presenting a series of up-to-date data and knowledge on the conditions for conducting business in Indonesia. With the Indonesian government's intention to boost foreign investment in the country, we hope that this Business Guide can help foreign investors to understand more about the process of developing their business in Indonesia.

These publications aim to provide guidance to European Union small and medium enterprises (SMEs) who look to Indonesia as a possible market, attempting to clarify as simply as possible what doing business in Indonesia entails, as well as exporting and importing to and from the country. In addition, these guide books also aim to encourage those among the European business community who are not familiar with Indonesia's potential to follow economic developments in the country and identify possible business opportunities in their industries.

EIBN exists to support EU SME in discovering and accessing the Indonesian market, supported by an Indonesian and European team of market experts and project officers. The EIBN team works every day to discover and develop knowledge on key sectors in which European companies can bring the much-sought added value that an emerging and large market such as Indonesia demands.

The Network's mission is not simply to make available more knowledge about business opportunities in Indonesia, but most importantly to help EU companies on the ground. In order to achieve this, EIBN provides a set of useful features on its Web Portal (www.eibn.org) that are free-of-charge, as well as a fast-responding business enquiry helpdesk. Finally, EIBN offers prospective EU companies business support services at competitive rates, delivering quality business intelligence and privileged contact with players on the ground, in both the private and the public sector.

EIBN is a truly pan-European business support platform that stands ready to help all businesses headquartered in any of the 28 EU Members States. Across many sectors, the Network enables SMEs to explore and tap into the rich potential of the Indonesian market. Mustering the expertise of the most well-established European chambers of commerce in Indonesia, EIBN presents itself as a genuine and smart alternative to purely private business consultancies and is the result of a project initiated and co-funded by the European Union.

The information in this guide book reflects the work and mission of EIBN, and is but one of the many publications we offer as a no-charge download to all EU companies who register for free on www.eibn.org.

Due to a dynamic regulatory environment, Indonesian provisions, laws and regulations issued by the different government bodies frequently change, even though some are of recent issue. This, of course, is highly dependent on the sector. In particular, regulations released by the National Agency of Food and Drug Control (BPOM) tend to change quickly, effecting Food & Beverages, Cosmetics and Agribusiness, among others.
The present volume I *Introduction to THE INDONESIAN MARKET* is dedicated to provide a broader understanding regarding existing sectors and investment incentives in Indonesia. It compiles information from many different sources, including publications, live interviews and case-studies, using the most recently available data in 2019, while reverting to previous years where the most updated information was either not available or inaccessible. This publication is part of the *EIBN SME GUIDE* series, which is comprised also of volume II *EXPORT & SOURCE* and volume III *SET UP A BUSINESS.*
1. Indonesia: Country Profile

1.1 Quick Facts

<table>
<thead>
<tr>
<th>Official Name</th>
<th>Republic of Indonesia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political System</td>
<td>Presidential Democracy</td>
</tr>
<tr>
<td>Capital</td>
<td>Jakarta</td>
</tr>
<tr>
<td>Area</td>
<td>1,904.569km²</td>
</tr>
<tr>
<td>Population</td>
<td>270 million (2019 est.)</td>
</tr>
</tbody>
</table>
| Age Distribution (2019) | 0-14 years: 25.94%  
                        | 15-24 years: 16.81%              
                        | 25-54 years: 42.3%               
                        | 55-64 years: 8.6%                
                        | 65 years and over: 6.2%          |
| GDP (nom.)          | EUR 864 billion                   |
|                     | EUR 3,495.42 per capita           |
| Currency            | Indonesian Rupiah (IDR/Rp)        |
|                     | EUR 1 ~ IDR 15.500                |
1.2 Key Socio – Political Factors

Indonesia is:
- The 4th most populous country in the world, with a population of around 270 million people.
- The 3rd largest democracy in the world following its transition into a stable and thriving democracy since 1998.
- The largest Muslim country in the world with over 80% of the Indonesian population following the Muslim faith.
- The biggest archipelago in the world consisting of over 17,000 islands spanning three time zones.

Indonesia has been an active (board) member in various regional and international organizations and has signed and ratified most relevant international treaties and conventions, notably in respect of trade and investment agreements; a total of 233 international organizations that Indonesia has joined hitherto.\(^1\)

While Indonesia alone constitutes a high-potential business country, its membership of the Association of the South-East Asian Nations (ASEAN)—comprised of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam—further increases its prospects.

Indonesia, together with the nine other ASEAN Member States, forms an economic bloc with a total market size of more than 600 million people and a progressively more integrated economic area, moved towards the realization of an ASEAN Economic Community (AEC) at the end of 2015. With this AEC, long-term investors in Indonesia are offered the opportunity to expand their horizons beyond the Indonesian market.

Under the ASEAN Free Trade Agreement (AFTA) the six original ASEAN members (Indonesia, Malaysia, Singapore, Thailand, the Philippines and Brunei) agreed to reduce import duties to lowering of intra-regional tariffs to 0-5% five percent or less by 2010, giving more time to the newer members (Vietnam, Laos, Myanmar and Cambodia). These, however, are not far behind in the implementation of their commitments with almost 80 percent of their products having reduced the import tariffs.

ASEAN also has Free Trade Agreements (FTA) with China, India, Japan, South Korea and Australia/New Zealand. The ASEAN Investment Area was established in 1998 to encourage FDI liberalization and promotion, but in later reviews was deemed insufficient, and ASEAN members completed the ASEAN Comprehensive Investment Agreement in 2009, covering liberalization, protection, promotion and facilitation. Indonesia is also a member of Asia Pacific Economic Cooperation (APEC).

\(^1\) Gov’t to Evaluate Indonesia’s Membership in International Organizations 2016. In: http://setkab.go.id/en/govt-to-evaluate-indonesias-membership-in-international-organizations/
In addition, Indonesia belongs to numerous international organizations including:

- World Intellectual Property Organization (WIPO)
- World Customs Organization (WCO)
- World Trade Organization (WTO)

1.3 Economic Overview

In the past few years, Indonesia’s economy has undergone exceptional developments. The country has become an economic powerhouse and a global player having evolved to become the 10th largest economy in the world.

Indonesia’s recent economic performance established it as the second fastest growing G20 economy, after China, with a strong and stable average growth of 6% over the last decade.

The growth of the Indonesian economy is largely based on a strong, domestic consumer base. The contribution of domestic consumption to total GDP has in recent years consistently exceeded 60%.

Indonesia’s population, with a consuming class estimated at 15%, drives not only Indonesian growth but also great market opportunities.

In contrast to many industrialized countries, Indonesia is a young country, with 43.7% of the population younger than 24. Furthermore, with wage levels still significantly lower than in neighbouring or BRIC countries, Indonesia offers great opportunities in industry and production.

Rich in natural resources such as petroleum, tin, natural gas, rubber, nickel, bauxite, copper, coal, gold and silver, the country is not only attractive as a production base, but also as a trading partner.

The large domestic market, a sizeable and young work force, abundant natural resources and sound macroeconomic fundamentals leave European companies ample room for business opportunities.
ECONOMIC SECTORS
2. Economic Sectors – Overview

2.1 Healthcare

- Nominal health spending has been steadily increasing during 2009-2017 by 222% overall.
- According to Frost and Sullivan’s Indonesia Healthcare Outlook, the Indonesian healthcare sector is expected to be USD 21 billion in 2019 or threefold that in 2014.
- By 2019, an estimated 240-260 million Indonesians will be covered by a newly implemented National Health Insurance program. As of October 2019, there were 222 million people enrolled.
- The National Health Insurance program is generating demand in a new population group, by providing access to care among those that never could have afforded it before, thus driving increased demand for clinics, hospitals and clinicians.
- Current public hospitals alone will not be able to meet the demand for services, therefore major private hospital groups, public hospitals and community healthcare centers are already expanding to address the gap in the healthcare infrastructure.
- Siloam – the largest Indonesian private hospital group – currently operates 36 hospitals located in 24 cities and has 16 potential new hospital development plans\(^2\).
- Negative investment list: Business and management consulting service and/or hospital management service - Foreign capital ownership max 67%.

**Business Potential**

| Hospital beds, medical devices, diagnostic tests, IT systems and skilled manpower demand |

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\(^2\) Siloam Hospitals, Siloam 3Q19 Results Presentation, 2019. Available at: https://www.siloamhospitals.com/en/Contents/Investor-Relations/Publication/Company-Presentations
2.2 Information and Communication Technology (ICT)

- The majority of population in Indonesia is under the age of 35 and growing mobile phone and Internet penetration rates\(^3\), currently reaching 63 million people, whereat 95 percent using the internet to access social networking.\(^4\)

- Indonesia is now the fourth highest number of Facebook users in the world as well as the fifth largest Twitter users after USA, Brazil, Japan and the UK.\(^5\)

- Indonesia is a treasure trove of untapped fintech opportunities.

- The Palapa Ring project known as Indonesia’s first government-to-business cooperation scheme within the nation’s telecommunication sector is a telecommunications infrastructure project through the development of a 36,000-km fiber optic line to be information highway all over Indonesia. It aims to expand domestic broadband service nationwide, particularly in frontier, outermost and remote regions.

- The Indonesia’s e-commerce market is forecasted to reach US$ 130 billion by 2020.\(^6\)

- With nine mobile network players, and 98% of users opting for prepaid services in the mobile telecom sector, this market is one of the most attractive telecommunications markets for foreign companies.

- 171 million people, or 64.8 percent of the total population of 264 million Indonesians, were already connected to the internet in 2018. This represents an increase from 54.86 percent recorded in 2017. This significant market growth will translate into business opportunities

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\(^4\) Ministry of Communications and Informatics of Republic of Indonesia. (unknown). Internet Users in Indonesia reaching 63 Million People. Available at: https://kominfo.go.id/index.php/content/detail/3415/Kominfo+%3A+Pengguna+Internet+di+Indonesia+63+Juta+Orang/0/berita_satker

\(^5\) Ibidem

for mobile operators and companies providing Internet-based services to consumers and enterprise.

**Business Potential**

| Finance IT, e-commerce, e-logistics |

### Finance IT
- Indonesia had 415.7 million mobile phone subscribers out of 250 million Indonesians in 2018.
- In 2018, around 51% of the Indonesian population was still unbanked.
- Mobile branchless banking and electronic payment systems are popularly viewed as the way forward for Indonesian financial inclusion.

### E-Commerce
- Indonesia, already the online sales volume leader in the Southeast Asia, is projected to have the highest growth rate in the region, especially with the largest population and the level of gross domestic product (GDP) throughout ASEAN.\(^7\)
- The Indonesian government has the ambition of making the country as Asia's digital energy, become the ruler of E-Commerce in Southeast Asia with a strong regulatory and logistics ecosystem, easy access to financiers, and government support, then digitizing is a necessity.\(^8\)
- Mid-March of 2018 the well-known China's Alibaba splashed a fund of US$ 1.89 billion to Lazada, the most visited e-commerce in Indonesia during the first quarter 2018, which reached 117.57 million visitors.\(^9\)
- The Singaporean e-commerce Shopee became the number one Indonesian online shopping destination to meet the needs of 465 million user visits in June-July 2018, achieving 1.5 million transactions in 24 hours. In doing so, Shopee maintains its position in the first rank as the most popular shopping applications on Android and iOS platform in Indonesia.\(^10\)
- The growing number of middle-class populations, increased internet access, the more sophisticated small towns, and limited access to the retail market make domestic e-Commerce grow rapidly. Thus, Indonesian e-Commerce in 2025 will reach US $ 46 billion

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\(^10\) Ibidem
compared to 2015 reaching US $ 1.7 billion that will reach 52% of all e-commerce in Southeast Asia.\textsuperscript{11}

**E-logistics**

- Indonesia is aspiring to improve its national infrastructure and the industry needs reducing supply chain costs and increasing efficiency.
- High logistics costs, corresponding to 24% of Indonesia’s GDP, form a serious impediment to economic growth.
- The e-commerce expansion will be the new backbone for the logistics sector in Indonesia, which previously relied on the manufacturing industry. In addition, IT Solutions are set to cut down costs and improve the quality of logistics and transport systems.

### 2.3 Food & Beverage

- Revenue in the "Food & Beverages" segment amounted to US$253m in 2018.
- Based on data from the Ministry of Industry the value of national F&B exports in 2017 reached US $ 11.5 billion. This amount has clearly risen in the estimation, reaching US$ 10.43 billion as compared to 2016. Furthermore, the growth of the F&B sector (9.23%) exceeded the national GDP (5.07%).
- The Indonesian government has brought up the F&B sector as one of the leading sectors of national industry.
- For alcoholic drinks, sales have started to improve. It is driven by demand from several tourist destinations of foreign vacationers.

• The greatest opportunity for the growth of soft drinks (ready-to-drink) in the untapped market is the large population of adolescents. Teenagers and young people are productive populations and potentially have an increased rate of disposable income.

As the fourth most populous country in the world developing the agriculture food and beverages sector is one of the government’s industrial development priorities. To foster development in this vital sector, strong cooperation and coordination among all stakeholders is needed – including among both public and private actors, domestic and foreign companies.

Note that alcoholic beverages are subject to heavy regulations due to high import taxes, for instance 150 percent on spirits and 80 percent on wines.

**Business Potential**

| Halal products, confectionery and biscuits, branded and specialty food products, food processing machinery, supply of food ingredients and packaging. |
| Soft drinks: Top three Indonesian favorite consumptions are hot coffee, tea and iced tea drinks. |

### 2.4 Automotive

- The automotive industry is one of the important pillars of Indonesia’s manufacturing sector. The number of investors who began to glance indicates that Indonesia does have great potential in the automotive industry.
- As the country with the largest population in ASEAN, the rapid growth of the middle class, and the low car ownership ratio, Indonesia indeed promises a huge market potential for the automotive industry.
- Strategic Analysis of ASEAN Automotive Outlook from Frost & Sullivan predicts Indonesia to emerge as the largest automotive market in ASEAN by 2019, accounting for 2.3 million vehicles, driven by sustained economic growth in the country, growing middle classes with
larger disposable incomes, increased investments in automotive sector and introduction of automotive regulations supporting market growth

- The low-cost green car was first introduced in late 2013 and since then, the government has promoted tax incentives to help keep the price tag low. To be defined as a low-cost green car, vehicles must have engines smaller than 1200cc, as well as run at least 20 kilometers per liter of gasoline (47 miles per gallon)

- Famous automotive products such as Honda, Isuzu, KIA, Mazda, Daihatsu, General Motor, VolksWagen and others also do not want to miss out on the chance to increase their production capacity due to the large potential of the automotive market in Indonesia. Even a newcomer from India, TATA Motor will make Indonesia as its production base.

- Toyota has even prepared an investment of 37 million USD to increase production capacity at the Karawang II plant from 70,000 units to 120,000 units.

- Krama Yudha Tiga Berlian as the holder of the Mitsubishi brand in Indonesia also does not want to lose by preparing an investment of 17.5 million USD to build a new factory in Pulogadung.

- Nissan has also prepared an investment of 400 million US Dollars to increase its capacity from 100 thousand units to 250 thousand.

**Business Potential**

| Production facilities, mechanical tools, car repair garage, automotive accessories, automobile insurance |

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Frost & Sullivan. (2013). ASEAN to emerge as a key global automotive market and production hub by 2019, says Frost & Sullivan. Available at: http://www.frost.com/c/10046/sublib/display-report.do?id=P729-02-00-00-00

2.5 Agribusiness

- The Agriculture Sector is the primary sector in the Indonesian economy, an important sector to contribute more than half of Indonesian growth

- Indonesia is the world’s largest producer of palm oil as well as a leading global producer of other high value commodities such as cocoa, rubber and coffee

- Consumption is low in comparison with other ASEAN nations. However it is growing steadily due to increasing in health awareness and incomes

- There is an increase of consumption around Ramadan month. It is the most significant sales period of the year, contributing 45% of annual sales

- The new Government of Indonesia (GoI) has sought to promote acceleration in the agriculture industry, determined to achieve its goal of self-sufficiency future food supplies, and has initiated favorable investment policies to attract both local and international investors.

  - GoI priorities include agricultural infrastructure; agricultural research; control, prevention and eradication of animal's diseases; and enhancement programs for agriculture productivity.

**Business Potential**

| Livestock, Animal Medicine, Agriculture Seedling, Fertilizer, Machinery |

**Livestock**

Due to growth in domestic food demand, all livestock population in Indonesia have risen over the past eight years. The biggest population is poultry followed by goat, dairy cattle, and beef cattle, reflecting the preferences of the country’s Muslim majority.

There is a general lack of knowledge and technology in the areas of husbandry, upkeep, and production.
Animal medicines

On 2016 data, seventy percent of the demand for vaccines and medicines for cattle and poultry is still fulfilled by imported products. European countries are one of the main origin countries of imported vaccines and medicines.

Agriculture Seedling

Imported seeds are still required to fulfill domestic shortage.

GoI has removed many of the duties and import barriers related to the seedling industry.

Fertilizer

Dominated by SOEs under Pupuk Indonesia Holding Company, especially in urea and NPK which they also export.

Indonesia imported about 80% of its mixed compound fertilizer. All KCl (Potassium Chloride) products, for instance, are imported.

Machinery

Indonesia imports about 80% of its agriculture machineries as they are cheaper than local products due to higher tariffs on raw materials than on imported machineries.

While able to produce most of the components for agriculture machines of low specifications, core engine technology and engineering steel are two of the most needed raw materials that cannot be produced locally.

2.6 Textile & Footwear
The textile and garment industry is at this moment a strategic industry for the Indonesian economy, considering that Indonesia has 260 million inhabitants, and therefore there is a business opportunity to fill large-sized domestic needs but not yet filled enough with the available manufacturer.

The Ministry of industry is projecting on 2019 that there will be additions to production capacity of 1,638 thousand tons per year with investment value of IDR 81.45 trillion and absorption of labor as much as 424,261 people.

This industry is part of the third largest manufacturing sector in Indonesia and becomes one of the most heavily pervade sector workforce.

The number of textile needs per capita has been rising two kilogram from 4.5 to 6.5 kilograms. But in the domestic market this only meets the need of the 60 million people in Indonesia, and the rest is still imported.

Revenues of textile and product textile industry in Indonesia currently just reaches US $13 billion. Through the roadmap which is now perfected, the revenue target in 2025-2035 will be pegged at US $30-50 billion.

The condition of Indonesia’s textile business is now going forward, in contrast to previous years which experienced a decline: textiles products rose five percent in 2017 again then up eight percent in 2018.

The national textile industry is also increasing the capacity and efficiency of production. One of them is to digitize or utilize digital technology in the production process.

What digital technology in the industrial sector on the textile and garment industry means can be 3D printing, automation, and internet of things.

Machine accessories industry required allow companies to more quickly change over to the industry 4.0. The Ministry of industry informs that efforts to strengthen the industry in the textile and garment industry are in need of capacity building through investment in modern machinery with a friendly financing scheme in the industry.\(^\text{14}\)

Along with economic growth and a shift in demand from apparel basics (basic clothing) into functional clothing such as shirts, sports industry, the national textile and garment industry ever needs to build production capacity.

Industrial textiles and textile products are predicted to be back stretched because of the magnitude of the growing domestic needs.\(^\text{15}\)

The Trade Ministry signals that the Indonesian Government will invite the international textile entrepreneurs and textile products to meet domestic needs. The Government of


\(^{15}\) Detikfinance. (2018). The CEO of Sritex: 60% of row material in textile industry are still imported. Available at: https://finance.detik.com/industri/d-4178646/curhat-dirut-sritex-60-bahan-baku-tekstil-masih-impor
Indonesia also seeks to complete the negotiations of free trade agreement (FTA) with the European Union within the next few years.

- In 2017, Indonesian footwear consumption is 2.5 pairs per capita.
- Export growth is slowing, while import growth is increasing sharply in the recent years.
- Indonesia’s import on footwear and its part are dominated by shoes components (40% of total import in footwear) than in ready-to-wear shoes: 44.22 %
- The footwear industry is one of the 10 mainstay and priorities industry that will be developed by the Ministry of Industry. It is stated in the National Industrial Development Master Plan (RIPIN) and lowered in the 2015-2019 Strategic Plan.
- In 2021 Footwear Retail (Indonesia) is forecast to reach IDR 28,858.3 bn representing a value CAGR of 1.3% since 2017.

**Business Potential**

<table>
<thead>
<tr>
<th>Textile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery to textile equipment, textile printing machines such as digital textile printing machinery, equipment for coloring, finishing, textile chemistry and textile coloring materials. Various raw materials for fiber, yarn, fabric, apparel, accessories, and nonwoven industrial products.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Footwear</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery to footwear production equipment, raw materials (especially leather), sole</td>
</tr>
</tbody>
</table>

### 2.7 Cleantech

- As Indonesia’s CO2 emissions from energy use continue to increase (+ 5.5% in 2017) reaching 512 million tonnes, the Indonesian government has committed to a renewable power future, with a target of 23% by 2025 and 31% by 2050.
- To date, Indonesia has a total installed capacity of 62,000 MW, of which the 13.7% (8,500 MW) is coming from renewable sources.
- Renewable energy consumption amounted to 2.9 million tonnes of oil equivalent in 2017, with an annual increase by 15.9%, much higher than the last 10-year average of 5.4%.
- The geothermal industry has huge potential in Indonesia, with Indonesia ranking as one of the world’s largest potential geothermal resources. Geothermal power capacity registered the major expansion (+306 MW), with 1924.5 MW or 2.7% of the total energy capacity. Geothermal energy contribution is targeted to reach 7.2 gigawatt by 2025.
- The World Bank has recently approved over $55 million in grants to support Indonesian geothermal energy projects, split between infrastructure development and actual technical assistance, both of which are currently lacking in Indonesia.
- The Indonesian government has created new regulations to support solar systems for utilities, furthering the future of Indonesian clean tech. The International Renewable Energy Agency estimated the potential for solar PV in Indonesia is 53 GW (IRENA, 2017).
- Indonesia is among the top ten countries with the biggest hydropower potential in the world.
- Wind power in Indonesia is another form of renewable energy that Indonesians must capitalize on.
- The government is also exploring possibility of utilizing ocean waves to increase its energy capacity, shown with a partnership with Japanese government to create pilot project of ocean wave-based power plant in Indonesian ocean.

**Business Potential**

| Renewable-energy equipment, joint research |

**2.8 Maritime**

- Indonesia’s strategic location: over half of all international shipping goes through Indonesian waters.
President Jokowi has a vision of making Indonesia part of the world’s “maritime fulcrum”. He wants to achieve this by building ports to support fisheries and shipping to increase the archipelago’s marine-based economy, aside from strengthening the Indonesian Navy as a regional maritime power\textsuperscript{16}.

On the economic side, there has been notable improvement in maritime infrastructure and connectivity. Under the Jokowi administration, at least 19 new ports have been built across Indonesia, and eight additional ports are expected to be completed in 2019.

Currently, 117 shipyard companies under the Indonesian Shipbuilding Association (Iperindo) operate around 27,000 commercial vessels, 21\% of which are older than 25 years, across the country. Most of the firms base their Other than shipyards, Iperindo members also consist of 72 supporting industries companies, four classification bureaus and five consultant companies.

**Business Potential**

| Development of roads, seaport construction and revitalization, shipbuilding such as tankers and freighters |

**2.9 Aviation**

- Indonesia’s aviation industry has recorded robust growth marked by increased passenger numbers, expanding fleets, and increased flights.\textsuperscript{17}

- Domestic traffic in Indonesia has more than tripled over the past 12 years, from less than 30 million in 2005 to almost 97 million in 2017. The number of air passengers is projected

\textsuperscript{16} Channel News Asia, Indonesia dreams of becoming a maritime fulcrum but obstacles stand in the way, 17 March 2019. Available at: https://www.channelnewsasia.com/news/commentary/indonesia-maritime-power-fulcrum-jokowi-president-vision-11257526

to continue growing at annual average growth of 5.7%, while the volume of air cargo transportation is growing at 8.6% annually.

- According to the International Air Transport Association (IATA), Indonesia’s aviation sector is poised to triple by 2036, reaching 355 million passengers per year, making Indonesia the 5th largest domestic aviation market globally.
- The Indonesian government has deregulated a number of regulations to boost investment in the aviation sector and eliminate dual authority and double payments in the industry.  
- Those regulations cover various aspects of the aviation industry, from commercial airlines, airports, airmail, air cargo, flight schools and ground support facilities to online air transport licenses.
- The aviation sector offers huge investment opportunities given the country’s unique geographical conditions coupled with a rising middle-class and a strengthening domestic as well as international tourism industry.

Business Potential

| Building of new runways and terminals, hangars and equipment, training of human resources. |

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18 Analysis Of The Aviation Industry In Indonesia (…), Sutan Banuara and John Tampil Purba, Available at: https://www.researchgate.net/publication/323267084_analysis_of_the Aviation industry in Indonesia period 2003-2015_based_on_domestic_passenger_growth_and_the_strategic_implication_for_airlines_and_government

INDONESIA’S SPECIAL ECONOMIC ZONES AND INDUSTRIAL ESTATES
3. Indonesia’s Special Economic Zones (SEZ) and Industrial Estates (IE)

3.1 Introduction

Indonesia shares the characteristics that have attracted multinational companies to establish production units in Southeast Asia in recent years. Among them are low production and labor costs and financial incentives, made available by the governments of several countries in the region. In Indonesia, one of these incentive policies is the establishment of Special Economic Zones (SEZ), designed to encourage foreign companies to invest in the country in order to spur economic growth and competitiveness.

Generally, the development of SEZs are expected to attract investors and thus have a positive impact on the economy of the host country. Lower taxes, as well as low wages and flexible labor laws are offered as incentives to investors, creating optimal investment conditions characterized by an abundant labor supply, specialized suppliers and knowledge/technological spillovers.

In Indonesia, an SEZ is an area of defined dimension that provides accessibility to global markets by setting incentives and granting certain facilities to attract investors and create employment opportunities. In these designated estates, goods are traded with limited barriers (quotas, tariffs, duties) imposed by customs authorities. The business carried out in these zones is subject to special conditions and regulations, especially directed towards the fields of trade, services, manufacturing, mining and energy, transport, fisheries, post and telecommunications, tourism and other fields.

The generic term SEZ encompasses many types of economic zones that differ according to the specific activities carried out within a particular zone. They include Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates (IE), and Free ports. In Indonesia, SEZs are mainly used as an instrument to strengthen its position as a regional production base using its comparative advantages, namely cheap labor, abundant natural resources, and its proximity to the broader South-East Asian market. This leads to the conclusion that SEZs in Indonesia tend to be focused on generating large inflows of foreign investment into the manufacturing industry.

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21 UNIDO, Economic Zones in the ASEAN, 2015, p. 12.
22 A quick overview is provided by the Ministry of Foreign Affairs of the Republic of Indonesia, *Indonesian Special Economic Zones*, 2015, p.2ff.
3.2 Policy and Advantages

Besides the Investment Coordinating Board of the Republic of Indonesia (Badan Koordinasi Penanaman Modal – BKPM), another relevant government agency monitoring as well as participating in regulating SEZ development is the National Council for Special Economic Zones. The establishment of this Council is based on Presidential Decree Number 8/2010. The current SEZ model was established by Presidential Decree No. 25/2007, Art. 31, while Presidential Decree No 39/2009 addresses the topic Special Economic Zones in detail.

Regarding the relevant legal framework, in each SEZ favorable conditions for the location of SMEs and cooperatives are to be made available. The laws applicable in each SEZ govern restrictions on both imports and exports. The laws applicable in each SEZ govern restrictions on both imports and exports.

SEZ are expected to provide a variety of investment incentives and facilities to attract business. Hands-on advantages for European companies to affiliate in an Indonesian SEZ are as the following:

25 The establishment of this Council is based on Presidential Decree Number 8/2010.
26 The current SEZ model was established by Presidential Decree No. 25/2007, Art. 31, while Presidential Decree No 39/2009 addresses the topic Special Economic Zones in detail.
27 Investment Coordinating Board of the Republic of Indonesia, 2019.
# Fiscal Incentives

## 1 Tax Holiday

Ministry of Finance Regulation No.150/PMK.010/2018

- Income tax reduction 100% starting from IDR 500 billion, or 50% between IDR 100 billion - < IDR 500 billion.

- Tax exemption:
  - 5 years (IDR 100 billion - < IDR 1 Trillion)
  - 7 years (IDR 1 trillion - < IDR 5 Trillion)
  - 10 years (IDR 5 trillion - < IDR 15 Trillion)
  - 15 years (IDR 15 trillion - < IDR 30 Trillion)
  - 20 years (Minimum IDR 30 trillion)

- 18 eligible pioneer industries: upstream base metal industry, oil & gas oil refinery, petrochemical industry based on petroleum, natural gas or coal, inorganic and organic basic chemical industry, pharmaceutical raw materials industry, manufacturing industry irradiation, electromedical or electrotherapy equipment, manufacturing industry of semiconductor wafer, backlight for Liquid Crystal Display (LCD), electrical driver or display for main components of electronic or telematics equipment, manufacturing industry for machinery and main machinery component, manufacturing industry of robotic component integrated with the engine manufacturing industry, manufacturing industry of power plant main components, manufacturing of main components vehicle and vehicle, manufacturing industry of ship main components, rail main components, aircraft main component and supporting activities of aerospace industry, pulp and paper integrated industry, economic infrastructure, digital economy.

- The eligible KBLI (Indonesia Standard Industrial Classification) will be regulated in BKPM Negative Investment List Presidential Regulation No.44/2016.

## 2 Tax Allowance

Government Regulation No.18/2015 junto No.9/2016

- Reduction of Net Income by 30% of the total investment value, for 6 years, 5% each year.
- 145 business segments eligible for tax allowance.
- Others: accelerated depreciation/amortization; the impositions of income tax on paid dividends 10% or less; loss compensation for more than 5 years and maximum 10 years.

## 3 Import Duty Facility

Ministry of Finance Regulation No/176/PMK.011/2018 junto No.188/PMK.010.2015

- Easing entry of machines, goods and materials required for production.
- Import duty exemption on:
  - machines for production for 2 years (can be extended 1 year);
  - goods and materials for production for 2 years, or 4 years for companies that use machines with local component (minimum 30%)
- Industries: producing goods and/or services, including tourism and culture, public transport, public health services, mining, construction, telecommunications and ports

## 4 Regional Incentives

Government Regulation No.45/2008

**Provided by local government based on authorities:**
1. Reduction or local tax exemption
2. Reduction or exemption levies
3. Funding stimulant
4. Provision of capital

**Incentives in the form of:**
1. Provision of data and information on investment opportunities
2. Providing facilities and infrastructure
3. The provision of land or location
4. Providing technical assistance
5. Acceleration granting permissions
Non-fiscal incentives

1 Online Single Submission (OSS)

OSS stands for Online Single Submission which covers applications and issuance of business licenses through an integrated online system. OSS is based on the Regulation No. 24 of year 2018, and launched in July 9, 2018.

Businesses that are eligible for using OSS to obtain business license:
- An organization or an Individual;
- Micro, small, medium or large enterprise;
- A new business or one already in existence prior to the operation of OSS;
- A business with whole domestic capital or containing foreign capita

2 Direct Construction Facility (KLIK)

License that is given to the investor who has an investment plan in a certain industrial/bonded zone. Investors can immediately start construction after obtaining principle license and investment permits from the BKPM or the one-stop integrated service (PTSP). Practical licenses, such as the license to build (IMB), environment licenses (UKL/UPL) and environmental impact analysis (AMDAL), can be registered while the construction goes on. This service is supported by both Central and Regional Governments which become the first step to synergize between central and local licensing.

No Requirements:
- No minimum investment or workers is required
- Available for 48 selected industrial estates (based on Head of Indonesia Investment Coordinating Board Decree Number 155 Year 2018) and continuously increasing
- Investors in all industries can immediately start their construction and apply for construction permit & environmental permit, in parallel with the construction.

3 Green Lane Acceleration Facility

- Fast-track custom clearance for capital goods from 3-5 days to 30 minutes.
- Submitting application to BKPM to be set by Director General of Customs
- Attachments: Company Data, Principle License, the Latest Investment Progress Reports, Construction Plan.
- Statement letter:
  1. Company is in the physical construction phase.
  2. Company will not misuse the imported goods (imported goods should conform to the import documents and be employed in accordance to the implementation of Principle License.
  3. Importation should be done on behalf of the company
3-Hour Investment Licensing Service (I23J) and 3-Hour Investment Licensing for Energy and Mineral Resources Sector (ESDM3J)

**Arrive** at OSS* at BKPM  
**Consult** with Director of Investment Service  
**Submit** the required documents & data

**Wait** at the lounge while documents are processed by BKPM, in-house notary, ministries & other government institutions

**Obtain** the requested licensing documents

*OSS refers to the One Stop Service at BKPM, no the Online Single Submission

### 3-Hour Investment Licensing Service (I23J)

**Requirements:**
- Minimum investment of IDR 100 billion and/or employing 1,000 local workers
- Application must be submitted directly by at least one candidate of the proposed company shareholder
- Excluded: participant of inland free trade agreement, part of an industrial supply chain, participant of tax amnesty program, national strategic program.

**Documents needed**
- Investor identity as the prospective shareholder
  - ID Card and/or Deed of Establishment (Indonesian company) or Articles of Association (Foreign company)

**Flowchart of business activities workflow**
- Flowchart on business activities workflow from raw material production until finished product

**9 Documents obtained**
1. NIB also acts as Certificate of Company Registration, Importer Identification Number and Customs Access
2. Tax ID
3. Healthcare Security
4. Social Security
5. Location Permit (commitment)
6. Waters Location Permit (commitment)
7. Environmental Permit (commitment)
8. Building Construction Permit (commitment)
9. Business License

### 3-Hour Investment Licensing for Energy and Mineral Resources Sector (ESDM3J)

**Documents needed**
- Article of Association and Legalization from Ministry of Justice and Human Rights.
- Other requirements for administrative and technical as regulated on MEMR Decree No. 15 of 2016

**8 types of license issued by ESDM3J Service**
1. Temporary Business License for Oil/Fuel/LPG storage
2. Temporary Business License for Storage of Processed Products/CNG
3. Temporary Business License for LNG Storage
4. Temporary Business License for Oil Refinery
5. Temporary Business License for Processing Oil Residue Industry
6. Temporary Business License for Natural Gas Processing
7. Temporary Business License for General Trade of Oil/Fuel
8. Temporary Business License for General Trade of Processed Products
5 Migration & Visa

Visa facilitation authorized in terms of extended stay duration (additional visa-free countries). Some of the SEZ also provide visa and immigration service on-site.

6 Employment Provision & Easiness

Provision of skilled labor as well as special regulations for effective communication and harmonious industrial relations (wage councils, tripartite institutions, and trade/labor unions)

Permission to hire foreign workers on director and manager level is granted.

The Negative Investment List (DNI)\(^{28}\)

Companies considering investing in Indonesia need to be aware of certain national regulations established by the government to protect selected domestic industries in order to improve Indonesia’s competitiveness in advance of the establishment of the ASEAN Economic Community (AEC). The Negative Investment List specifies sectors that are either wholly or partially banned to foreign investment, but with exceptions for SME and cooperatives. The DNI applies also to SEZs.

3.3 Free Trade Zones (FTZ)

3.3.1 Introduction

As a sub-type of SEZ, Free Trade Zones (FTZ) (Kasawan Perdagangan Bebas - BPK) are areas within the jurisdiction of the Republic of Indonesia which are treated if they were outside of the Indonesian customs territory focusing on free trade. Therefore the business activities conducted within FTZ also enjoy special conditions regarding tariffs and non-tariff barriers.\(^{29}\) FTZs are often located at or close to a port of entry to facilitate import and export.

The regulations under which FTZs are created provide specific coordinates and boundaries. The regulatory framework as well as business activities conducted within the particular FTZ are stipulated in its “Regional Master Plan”.

Currently, 4 Free Trade Zones has been established in Indonesia.:

- Batam Free Trade Zone and Free Port
- Bintan Free Trade Zone and Free Port
- Karimun Free Trade Zone and Free Port
- Sabang Free Trade Zone and Free Port

\(^{28}\) Presidential Regulations No. 44/2016, Appendix I provides a list of industries closed to investment. 
\(^{29}\) A FTZ is “an area (…) which is exempted from import duties, sales tax, value added tax and tax on luxurious goods, and any customs duties.” (Regulation of the Minster of Finance No.47/PMK/2009).
Indonesia has concluded International Guarantee Agreements with 52 countries, establishing compensation mechanisms to discourage reluctance regarding nationalization or expropriation; damages and losses caused by incidents of war, revolution or insurrection; as well as payments for any approved remittance pursuant to the investment in case of non-convertibility of the currency of the host country.

3.3.2 General Conditions for Import and Export of Goods into and from FTZs

Companies that intend to carry out business within FTZs need to meet certain standards and provisions to import and export of goods from and to foreign countries into Batam – Bintan – Karimun Free Trade Zones (BBK).

The standards to be met are the following:\(^ {30} \)

- Importation of goods can be carried out by importers, except for prohibited goods such as weapons, drugs or any goods as stipulated by the government;
- License from the Free Trade Zone Executing Agency (Badan Pengusahaan Kawasan, BPK) must be obtained prior to the importation;
- Importation of all consumption goods can only be carried out by importers approved by the relevant BPK;
- Goods imported must be in line with the scope of business of the importers (kind and quality must be mentioned);
- All export of goods to foreign countries and non-FTZs in Indonesia must be reported to the BPK;
- Customs procedures (including audit and penalties) are applicable to the FTZ;

\(^ {30} \) Investment and Promotion Board of Kepulauan Riau Province, *Investment Profile of Kepulauan Riau Province*, 2013, p.19.
There is no requirement as to registration as a Taxable Enterprise (Pengusaha Kena Pajak, PKJ) for VAT purposes. Entry and removal of goods to and from an FTZ may only be performed by business performers/entrepreneurs who have received business permits, and in designated ports or airports that are already covered by a permit from the Minister of Transportation and thus already designated custom zones.

The government officially revoked the duty-free facilities for excisable goods in the free trade zone (FTZ) in Batam, Bintan, and Karimun since 17 May 2019.

The Indonesian Rupiah is the legal medium of payment within the Free Zone. Entry and removal of Rupiah currency inter-Customs area to and from a Free Zone is subject to the rules established by the Government. In addition, the movement of Rupiah between the Free Zone and foreign countries is subject to the general rules applicable in a Customs area. Conversely, foreign currencies can be traded in the Free Zone through licensed banks or moneychangers. In the Free Zone, all international trade transactions are performed in foreign currency by licensed banks.

### 3.3.3 FTZ – Benefits and Challenges

The province of Kepulauan Riau Islands is home to three of the four Indonesian FTZs: Batam, Bintan, and Karimun (BBK). Together, BBK were selected in 2007 as the preferred location for setting up an FTZ due to their unique geostrategic advantages. The province consists of 2,408 islands and is located strategically in the Malacca Strait, the busiest shipping route in Asia, and is part of a growth triangle involving Singapore, Malaysia and Indonesia. The following abstract conveys essential information about these three FTZs.

#### Benefits

In Indonesia, the distinguishing feature between a SEZ and a Free Trade Zone is its export focus. The regulations and investment incentives established by national and regional authorities (Badan Pengusahaan Kawasan, BPK) are equally applicable. Particularly in terms of labor supply, BBK has an abundance of potential workers. A marked difference to SEZ is, that within a FTZ import and export duties as well income tax, VAT, and sales tax on imported capital goods, equipment, and materials are exempted without a time limit, but only until the portion of production destined for the domestic market is "exported" to Indonesia, in which case fees are owed only on that portion.

Indonesian immigration regulations generally apply in the Free Trade Zones. Some zones provide an immigration service onsite.

#### Challenges

Previously there have been some reported challenges regarding investment climate in BBK FTZ, namely a declining competiveness and the FTZ's institutional setting.

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33 For a sound understanding regarding these restrictions refer to Department of State of the United States of America, *Indonesia Investment Climate Statement*, 2015, p. 20.
The multiple layers of government with sometimes overlapping roles regarding governmental levels in the zones’ development are one obstacle to an efficient and coordinated regulatory approach.\textsuperscript{34} Companies have highlighted problems with inconsistent interpretation or application of regulations by government officials, corruption, as well as limited coordination between the provincial and national governments.\textsuperscript{35} The overlapping regulatory authorities leads to confusion, delays, and slow-decision-making processes.

Another crucial element obstacle to attracting foreign investment is the ambiguity regarding land acquisition and protection of land-use rights. Even though government authorities highlight the ease of land acquisition as a comparative advantage of FTZs, the weak law existing does not stipulate clearly enough whether and how land could be acquired for investment purpose and at the same time balance the safeguarding of local livelihood\textsuperscript{36}.

The declining competitiveness is connected to a critical extend to labor flexibility, but also to an over-extensive approach in terms of industries to focus on. To increase the competitiveness of the BBK FTZs, particularly compared to other regional hubs such as Vietnam, the national government plans to limit the focusing sectors to maximum six\textsuperscript{37}. Even though FTZ’s essential comparative advantages in order to attract foreign investors is cheap labor, the lack of high-tech skilled labor seems to be crucial for investors in certain key industries like consumer electronics and engineering. Companies operating in industries requiring high-skilled labor are thus forced to hire from outside the region. Additionally, the infrastructure onsite remains limited, making the prospects for meeting future demand challenging (particularly in Bintan and Karimun) taking into account the authorities effort to push the BKK FTZ even further. In the drawers of government institutions responsible for the zones’ development can be found action plans to involve the private sector using public-private-partnership (PPP) to ease the strain on the public budget.\textsuperscript{38}

\begin{itemize}
\item\textsuperscript{34} FTZ development is steered by a multi-level structure. The different authorities involved are BIFZA, Regional Council, provincial government, the municipal government, as well as the national government.
\item\textsuperscript{35} Sari Wahyuni, Irwan Adi Ekaputra, William Tjong, The Impact of Competitiveness on Firm Growth in Special Economic Zone, a study of electronics cluster in Batam, Indonesia, 2012, p. 117.
\item\textsuperscript{36} Umar Juoro, Khee Giap, Kong Yam, Joint Expert Study on Competitiveness of Batam-Bintan-Karimun, 2013, part II p. 35-36.
\item\textsuperscript{37} Jakarta Post, \textit{Trade Minister may chair Batam FTZ: Sofyan}, (Article from May 4 2015).
\item\textsuperscript{38} Umar Juoro, Khee Giap, Kong Yam, Joint Expert Study on Competitiveness of Batam-Bintan-Karimun, 2013, p. 35.
\end{itemize}
Batam is considered as one of the growth engines of Indonesia and thus an attractive investment destination due to the availability of industrial land, competitive wages and an abundance of skilled labor. Moreover, Batam has an established history as a manufacturing base, and has consistently attracted companies in this industry. The most common industries in Batam are electronics and related products such as printed circuit boards, computer components and parts. There are also businesses involved in shipyards, agroindustry, fisheries, leather, garments, toys and healthcare products as well as steel and oil exploration equipment production. The Batam Regency is attracting investments by providing lower manufacturing costs, logistics facilities, and an international financial center. An additional feature is its proximity to the trading and business hub Singapore, which is connected to Batam by a regular high-speed ferry. Batam has been profiting from Singapore’s economic expansion ever since.

Bintan

Less well developed than Batam, Bintan is the largest island in Kepulauan Riau Province. The region is continuously investing in the development of this FTZ, focusing on the improvement of supporting infrastructure to industrial production and tourism. As a tropical island with white sand beaches and international standard resorts, Bintan has grown to become an attractive tourist destination comparable to Bali. Bintan is the location for a number of Industrial Parks, providing tenants with modern infrastructure and complete integrated facilities. The core sectors are the shipbuilding industry (with investments from Saipem and Sembawang), manufacturing, garment, and as well as agribusiness and fisheries.\(^{39}\)

\(^{39}\) For more information on Bintan FTZ, refer to Investment and Promotion Board of Kepulauan Riau Province, *Bintan Regency*, 2013.
Karimun

Karimun is the least developed FTZ in Kepulauan Riau Islands province. However, the regional authority is actively investing in the zone’s infrastructure development such as roads, seaports (cargo and passenger), airport, electricity, fresh water, hospital and training centers. The regency has also allocated land to support various investment activities, notably agriculture and tourism.

3.4 Industrial Estates

An industrial estate (IE), also known as an Industrial Park, is defined as an area managed and marketed by a private or public company offering basic infrastructure such as electricity, water, and a sewerage system. In addition, it also provides a range of supporting services (permits, security) and property facilities. In Indonesia, the initial development of industrial estates (Jakarta, Surabaya, Cilacap, Medan, Makassar, and Lampung) took place during the 1970s through the joint efforts of local and provincial governments. A milestone of the development of IEs was Presidential Decree 53/1989, which opened up the business of developing industrial estates to private companies and set the legal and technical standard requirements for the development of and operation of such estates. In 1996, Presidential Decree 41/1996 established the first guidelines for industrial estates in Indonesia. Government Regulation No. 24/2009 highlights the IE as “a center for manufacturing industries supported by infrastructure, facilities, and services”.

Industrial estates in Indonesia are experiencing rapid development in demand. In addition to being increasingly beheld by local markets, Indonesian industrial estates would equally be beneficial for foreign investors in all sectors. Now many companies, both local and international, from the electronic trading sector up to a consumer goods company – 3PL (third party logistic), are also looking for land for warehousing. According to the Ministry of Industry, growth in the number of industrial estates in Indonesia is increasing. To date, there are more than 90 industrial estates in operation. As opposed to this, in 2014 there were only 74 industrial estates in operation. West Java is one of the provinces in Indonesia with the largest number of industrial estates, namely more than 25 industrial areas. Thus, the development of industrial zones to Eastern Indonesia must indeed be done, since the land in Java becomes more exclusive and expensive. In order to add value to commodity natural resources through industrialization, its process must also be done in Eastern Indonesia, which has a mining, plantation, or marine and fishery base.

For more information on Karimun FTZ, refer to Investment and Promotion Board of Kepulauan Riau Province, Karimun Regency, 2013.
Currently the industrial estates in Indonesia have become an attractive investment land because of the adequate infrastructure that has facilitated the flow of logistics in the existing industrial area. The growth of the industrial areas will be accompanied by the development of digital technology infrastructure, such as the 5G internet network. This can sustain the acceleration of the application of industry 4.0 in Indonesia. The development of the industrial area will as well pay attention to waste management in order to support the concept of sustainable economy. Efforts need to be made, for example through environmental preservation and the use of clean technology, biochemistry, and renewable energy.

Based on the mandate of Law Number 3 of 2014 concerning Industry, all industrial companies must be located within industrial estates, therefore, the industrial estate plays an important role in encouraging increased investment in the manufacturing sector. Indonesia currently has a total of 1.5 million square meters of modern warehouse space. Going forward, until 2021, it is estimated there are additional locations covering 890,000 square meters. Although growth is slow, it is certain that Indonesia has begun to absorb the existing demand. The development of industrial zones is the government's main concern because it is able to realize economic equality throughout Indonesia. Therefore, the Ministry of Industry focuses on facilitating the development of industrial estates that can attract both domestic and foreign investors. Having the potential to attract investment of up to IDR 250 trillion, 18 industrial estates are targeted to be ready in operation by the end of year 2019. The 18 industrial estates are the Lhokseumawe Industrial Estate, Ladong, Medan, Tanjung Buton, Landak, Maloy, Tanah Kuning, and Bitung. Then in Kuala Tanjung, Kemingking, Tanjung Api-api, Gandus, Tanjung Jabung, Tanggamus, Batulicin, Jorong, Buli, and Bintuni Bay strategis.

The development of the industrial estates in various regions is also related to efforts to maintain the availability of raw materials and strategic sectors, and consequently it will be able to absorb direct labour up to or even more than 900 thousand people. The government has prepared fiscal and non-fiscal policies to attract foreign investment in the industrial zones, such as Tax holiday, Tax allowance, also Super Deductible Tax for Research and Development in education and technology at 200% - 300%. The super deductible tax incentive is believed to accelerate investment by more than 20%.

The main industries acquiring land in the SEZs are the automotive, chemical, warehouse companies, steel-related, F&B, consumer goods, and manufacturing industries.
Map of Major Industrial Estates in Indonesia

Source: EIBN Industrial Estates Directory 2019

For more comprehensive information on the each Industrial Estate please visit EIBN’s Industrial Estates Directory at www.industrialestateindonesia.com

The most relevant laws and regulations regarding FTZ and IE are:

- Law No. 37/2000 on Sabang Free Trade Zone and Free Port
- Law No. 44/2007 on Free Trade Zone and Free Port
- Government Regulation No. 46/2007 about Batam Free Zone and Free Port
- Government Regulation No. 47/2007 about Bintan Free Zone and Free Port
- Government Regulation No. 48/2007 about Karimun Free Zone and Free Port
- Regulation of the Minister of Finance No.47/PMK.04/2009 about Procedures within FTZ
- Government Regulation No. 24/2009 about Industrial Estates

3.5 Ports in Indonesia

The world’s largest archipelago, Indonesia consists of over 17,000 islands spanning three time zones. Given its geography, size, population, and dependence on waterborne transport, the
maritime industry plays a significant role in both the domestic and regional trade, with Indonesian ports emerging as key trading hubs and handling a huge share of long-distance transportation, cargo capacity and logistics. Indonesian ports will take on ever greater importance in the context of the AEC. Ensuring connectivity through infrastructure development is one of the crucial pillars of the ASEAN Connectivity Master Plan.41

According to the Sea Transportation Directorate General, there are over 2,000 ports in Indonesia, which are classified into 6 different categories42. Some 108 of them are commercial ports43, and 400 of the total are currently not being used44.

The Ministry of Transportation states that the four national port operators, which are four different state-owned enterprises named Pelindo (i.e. Pelabuhan Indonesia) I-IV, operated 81 ports at the end of 2016, compared to 70 in the year 201245. The total number of ports managed by the Government accounts for 899, but, as of August 2016, the national Government was planning to hand them over to the four Pelindo, raising concerns among independent port operators that this will create a monopoly46.

Despite Indonesia having 108 commercial ports, only a small number of those are able to accommodate large vessels, such as Tanjung Priok (Jakarta) and Tanjung Perak (Surabaya) in Java, Belawan (Medan) in North Sumatra, Makassar Port in South Sulawesi or the Batam Port (Batam Free Trade Zone) in the Riau Islands47.

Since the island of Java is the main economic hub of the country, two of its ports rank high in the top 100 ports worldwide compiled by Lloyd's List Intelligence, namely Tanjung Priok, which handled over 5.2 million TEU during 2015 (27th globally) and Tanjung Perak, with over 3.1 million TEU during the same period of time (46th in the world).

As of 2017, Tanjung Priok is able to handle vessels carrying up to 8,238 TEU48, although this is not the norm. The most recent statistics show that only 11 ports in Indonesia are container ports49, and most of them are unable to handle larger container ships. That explains why larger container ships usually transfer their cargos to smaller ships in Singapore rather than taking them directly to Indonesian ports.

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41 Issued in 2009, this Action Plan aims to bring the ASEAN countries closer to a more competitive and resilient community by the end of 2015 (ASEAN, *Master Plan on ASEAN Connectivity*, 2009).
49 http://opentoexport.com/article/ports-sector-in-indonesia/
Regarding the logistics performance of Indonesian ports, the situation has improved in recent years, but it is still a heavy burden on the country’s economy. While in Singapore the handling of a container can take less than 24 hours, in some major Indonesian ports, they still have dwelling times of more than 3 days. For instance, taking into account all Indonesian ports, the average waiting time in July 2017 was 3.5 days, with some big ports averaging six to seven days. However, in the two major ports, Tanjung Priok and Tanjung Perak, waiting time stood at 3.2 days in August 2017 due to 24 hour operations by Pelindo II and Pelindo III in these two ports, improving significantly from the 4.95 days needed in December 2015.

On a general basis, the waiting time at check-in and customs clearance in Indonesian ports takes longer than in comparable ports abroad, mainly due to the absence of 24 hour working, a lack of tracking systems and deficient planning. However, the World Bank proposed to improve the country’s main ports with new terminals, where large ships would unload their containers for distribution, more efficiently, to smaller ports, reducing significantly the handling time. However, this idea never came to fruition, although Transportation Minister Budi Karya Sumadi said in September 2016 that the government plan was to transform the entirety of Indonesia’s port system into a hub-and model, in which some of Indonesia’s large ports, like Tanjung Priok, Tanjung Perak, Belawan, or Makassar would act as hubs, strengthening Tanjung Priok’s role as a domestic and international hub port, and thus allowing for an improvement in dwell.

The EIBN Sector Report Maritime (2017) will help to understand challenges and business opportunities of Indonesia’s commercial maritime sector, its infrastructure development as well as public and private players involved in the industry.

**Important Laws and Regulations on Shipping** and the maritime sector are:


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51 Retrieved from [http://dwelling.pelindo.co.id/](http://dwelling.pelindo.co.id/) and accessed in August 2017
3. Conclusion

The information presented above provides introductory insights on investment opportunities to be considered by European SMEs seeking to conduct business in Indonesia. This has been illustrated through both general information about structural incentives in Special Economic Zones and selected details on potential sectors for European companies, such as Maritime, Cleantech or Healthcare. EU trade policy facilitates trade with Indonesia and other non-member countries by eliminating protective trade barriers, but also by offering hands-on business support through projects such as the EIBN or the Export Helpdesk.

While obstacles remain, the Indonesian market is becoming more accessible and profitable than ever before. Many environmental-friendly, innovative and high-quality products and services by EU SMEs provide solutions to the ecological, industrial and social challenges and opportunities that Indonesia is facing. The EIBN is perfectly prepared to support your business activities here in Indonesia and help you to figure what your business stand and gain by entering the Indonesian market, what risks you are likely to face and how to manage those potential risks.

The prospects for future trade between the European Union and the Republic of Indonesia are very promising. Although the GSP regime, which entitles Indonesia to privileged access to the markets of the EU, will ultimately be suspended as Indonesia’s economic wealth grows, negotiations are currently underway with the aim of bringing bilateral relations to another level. The signing of a Comprehensive Economic Partnership Agreement (CEPA) aims to create a win-win situation for both parties in order to strengthen trade. The potential impact includes a recovery in EU-FDI-flowing into Indonesia as well a potential increase in exports from Indonesia to Europe of 5.4%. More than one-third of this growth would derive from traditional products, while the rest would be generated by diversifying trade with new products.
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEC</td>
<td>ASEAN Economic Community</td>
</tr>
<tr>
<td>AFTA</td>
<td>ASEAN Free Trade Agreement</td>
</tr>
<tr>
<td>APEC</td>
<td>Asia Pacific Economic Cooperation</td>
</tr>
<tr>
<td>ASEAN</td>
<td>Association of the South-East Asian Nations</td>
</tr>
<tr>
<td>BBK</td>
<td>Batam – Bintan – Karimun Free Trade Zones</td>
</tr>
<tr>
<td>BIFZA</td>
<td>Batam Indonesia Free Trade Zone Authority</td>
</tr>
<tr>
<td>BKPM</td>
<td>Indonesian Investment Coordinating Board (Badan Koordinasi Penanaman Modal)</td>
</tr>
<tr>
<td>BRIC</td>
<td>Brasilia, Russia, India, and China</td>
</tr>
<tr>
<td>DNI</td>
<td>Negative Investment List (Daftar Negatif Investasi)</td>
</tr>
<tr>
<td>EIBN</td>
<td>European-Indonesian Business Network</td>
</tr>
<tr>
<td>EPZ</td>
<td>Export Processing Zone</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>F&amp;B</td>
<td>Food and Beverage</td>
</tr>
<tr>
<td>FTA</td>
<td>Free Trade Agreement</td>
</tr>
<tr>
<td>FTZ</td>
<td>Free Trade Zone (Kasawan Perdagangan Bebas)</td>
</tr>
<tr>
<td>FZ</td>
<td>Free Zone</td>
</tr>
<tr>
<td>G20</td>
<td>The Group of Twenty</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GoI</td>
<td>Government of Indonesia</td>
</tr>
<tr>
<td>HKI</td>
<td>Industrial Park Association (Himpunan Kawasan Industri)</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>IDR</td>
<td>Indonesian Rupiah</td>
</tr>
<tr>
<td>IE</td>
<td>Industrial Estate</td>
</tr>
<tr>
<td>LCGC</td>
<td>Low Cost Green Car</td>
</tr>
<tr>
<td>MSW</td>
<td>Municipal solid Waste</td>
</tr>
<tr>
<td>MP3EI</td>
<td>Masterplan for Acceleration and Expansion of Indonesia’s Economic Development</td>
</tr>
<tr>
<td>MRO</td>
<td>Maintenance, Repair and Overhaul</td>
</tr>
<tr>
<td>PKJ</td>
<td>Taxable Enterprise (Pengusaha Kena Paja)</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Full Form</td>
</tr>
<tr>
<td>--------------</td>
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</tr>
<tr>
<td>PLN</td>
<td>State-owned Electricity Company (Perusahaan Listrik Negara)</td>
</tr>
<tr>
<td>PPP</td>
<td>Public-Private-Partnership</td>
</tr>
<tr>
<td>PPSP</td>
<td>Acceleration of Urban Sanitation Development</td>
</tr>
<tr>
<td>RUPTL</td>
<td>Electricity and Power Supply Business Plan</td>
</tr>
<tr>
<td>SEZ</td>
<td>Special Economic Zone</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>SSK</td>
<td>City Sanitation Strategies</td>
</tr>
<tr>
<td>UNIDO</td>
<td>United Nation Industrial Development Organization</td>
</tr>
<tr>
<td>US</td>
<td>United States (of America)</td>
</tr>
<tr>
<td>UTP</td>
<td>Transportation Ministry's Technical Management Unit</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>WCO</td>
<td>World Customs Organization</td>
</tr>
<tr>
<td>WIPO</td>
<td>World Intellectual Property Organization</td>
</tr>
<tr>
<td>WtE</td>
<td>Waste-to-Energy</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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About EIBN

The EIBN is a partnership project between six European bilateral chambers of commerce in Indonesia (BritCham, IBAI, Dancham, EKONID, EuroCham, IFCCI) and two counterparts in Europe (EUROCHAMBRES, CCI Barcelona). The EIBN’s aim is to promote Indonesia and ASEAN as high potential trade and investment destinations among companies from all EU28 member states – especially SMEs – and support them in their endeavours to explore the full market potential in Indonesia. The project was initiated and co-founded by the EU.

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