



# Overview of the Joint Expert Study on 5 Special Economic Zones in Indonesia

ACI-LKYSPP, NUS

June 2021



## President Joko Widodo's 2019-2024 Priorities

### 1. Infrastructure Development

- Accelerates infrastructure development to enhance connectivity (e.g. toll roads, trains seaports and airports)
- Connects key infrastructure with production zones (e.g. small industrial areas and special economic zones)

### 2. Human Resource Development

- Builds dynamic workforce equipped with on-demand skillsets and digital capabilities via improving the quality of education

### 3. Investments

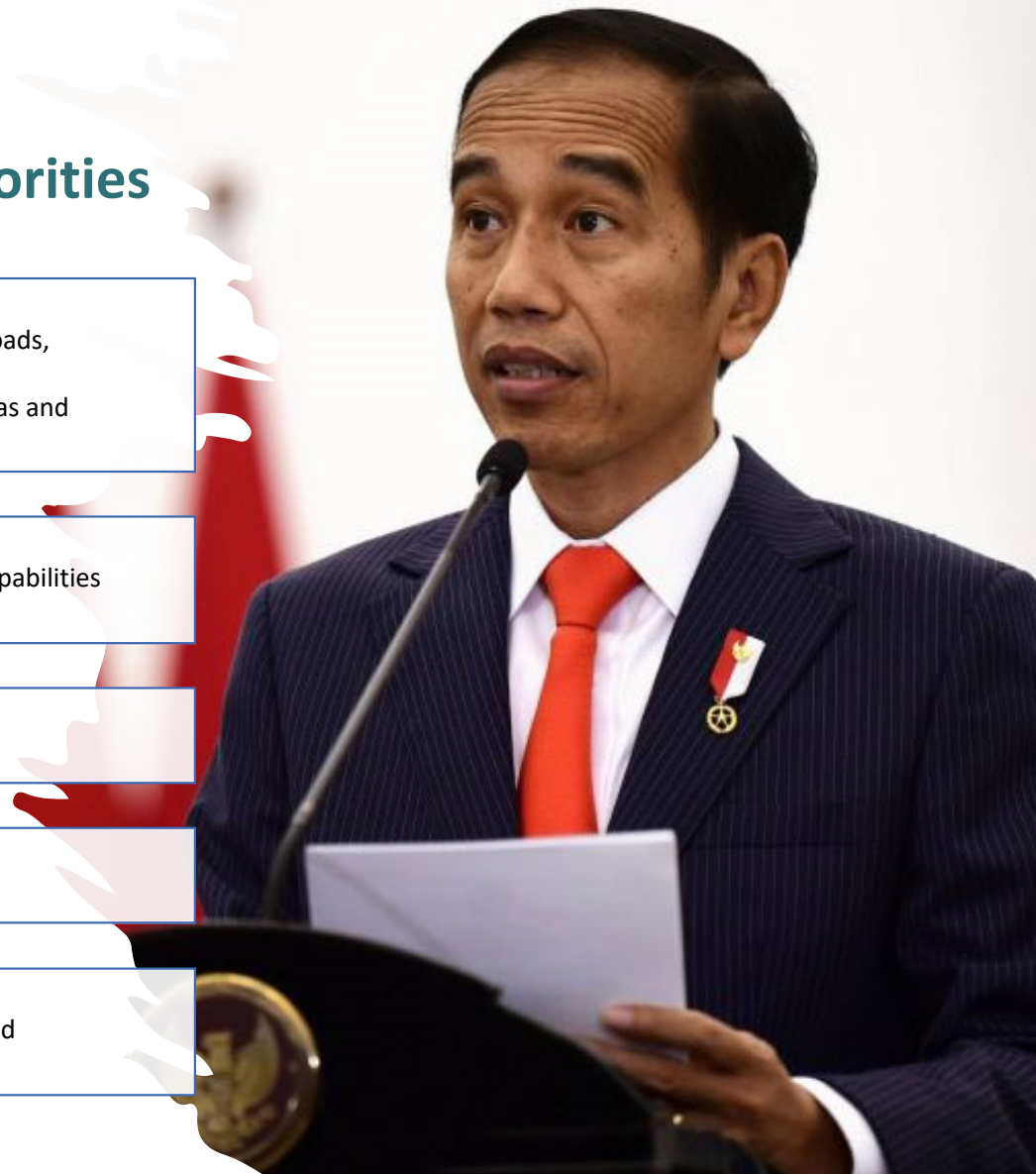
- Attracts investments as a step to create job opportunities

### 4. Bureaucratic Reform

- Implements structural reform to build more agile and efficient institutions

### 5. Fiscal Accountability

- Ensures effective use of state budget to benefit the Indonesian populace and improves the people's prosperity



# Indonesia's Economy in a Snapshot

Before the pandemic



**US\$ 1.2T**

Gross Domestic Product (GDP), 2019



**5.3%**

Average GDP Growth, 2010-2019



**5.2%**

Unemployment Rate, 2019

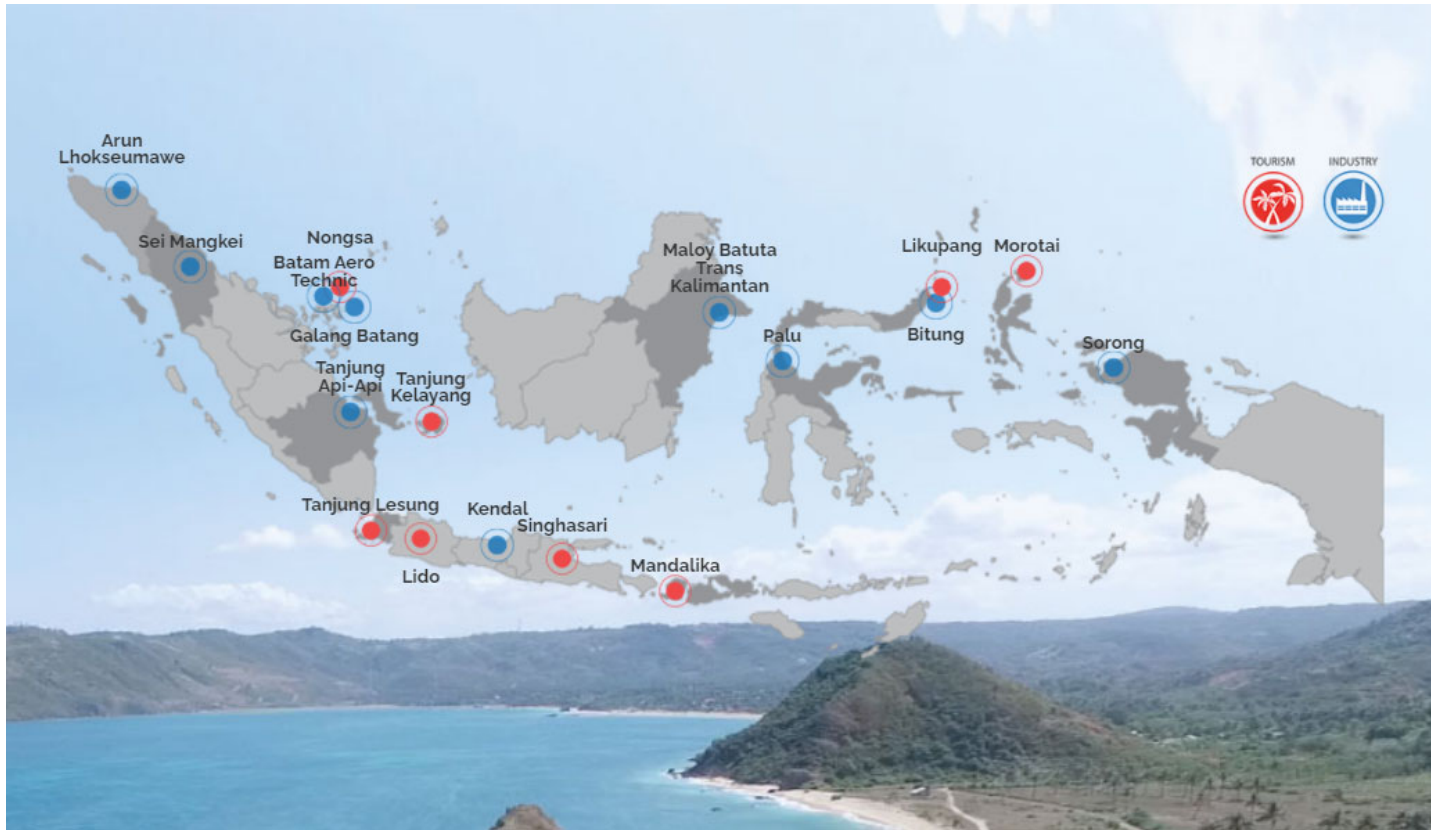


**US\$ 23.9B**

Total Foreign Direct Investment (FDI) inflow, 2010-2019

Source: World Bank, ASEANstats, Indonesian Bureau of Statistics (BPS)

## Overview: SEZ Landscape of Indonesia



### 12 in Operations:

1. KEK Sei Mangkei
2. KEK Tanjung Lesung
3. KEK Palu
4. KEK Mandalika
5. KEK Galang Batang
6. KEK Arun Lhokseumawe
7. KEK Tanjung Kelayang
8. KEK Bitung
9. KEK Morotai
10. KEK Maloy Batuta Trans Kalimantan (MBTK)
11. KEK Sorong
12. KEK Kendal

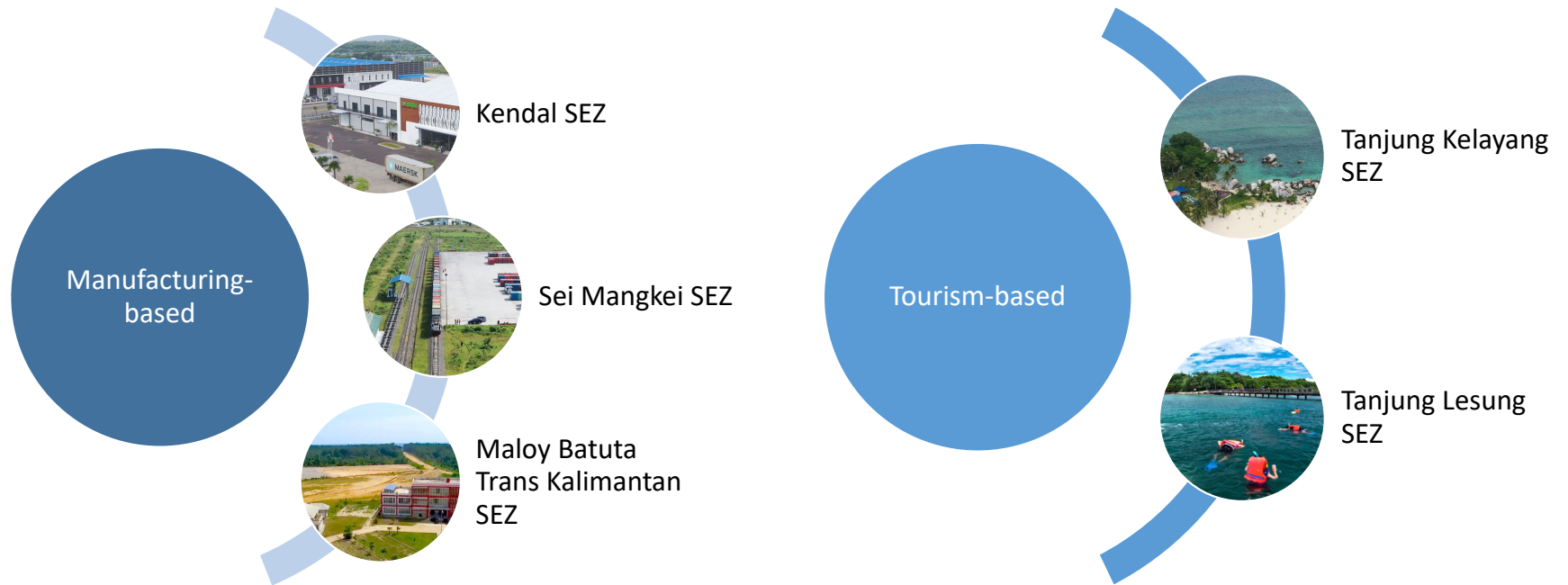
### 6 in Development:

1. KEK Tanjung Api-Api
2. KEK Singhasari
3. KEK Likupang
4. KEK BAT (Batam Aero Technic)
5. KEK Nongsa
6. KEK Lido

# List of SEZs and Its Primary Industries

SEZ	Primary Industry	SEZ	Primary Industry
<b>Kendal SEZ</b>	<ul style="list-style-type: none"> <li>• Textile and Fashion</li> <li>• Furniture and Toys</li> <li>• Food and Beverages</li> <li>• Automotive</li> <li>• Electronics</li> <li>• Logistics</li> </ul>	<b>Sorong SEZ</b>	<ul style="list-style-type: none"> <li>• Nickel Processing</li> <li>• Palm Oil Processing</li> <li>• Forest Industry</li> <li>• Plantation</li> <li>• Logistics</li> </ul>
<b>Arun Lhokseumawe SEZ</b>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Petrochemical</li> <li>• Palm Oil Processing</li> <li>• Wood Production</li> <li>• Logistics</li> </ul>	<b>Sei Mangkei SEZ</b>	<ul style="list-style-type: none"> <li>• Palm Oil Processing</li> <li>• Rubber Processing</li> <li>• Logistics</li> <li>• Tourism</li> </ul>
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# 5 SEZs Reviewed in 2019

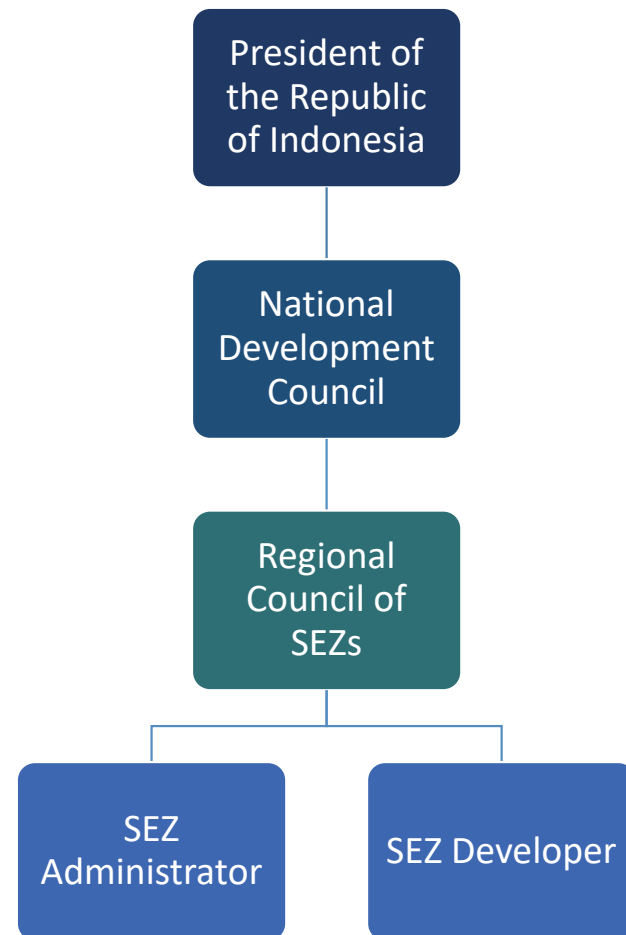


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## Governance of SEZs

**Indonesian Law No. 39/2009** defines SEZs as zones with a set boundaries within the territories of the Republic of Indonesia, designated to perform specific economic functions and are granted special facilities and incentives





# Fiscal Incentives

## Tax incentives

- Tax holiday for primary industry
  - Investments >Rp 500b (US\$35m) for 10-25 years: **Reduction of up to 100%**
- Tax Allowance for Other industries
  - Reduction in **net taxable income of up to 30%** of invested amount, pro-rated at 5% for six years of commercial production

## Custom duty

- Exempt import duty
- Exempt excise duty

## Non-Fiscal Incentives

### Land use policy

- **Exemption from land and building tax**
- Foreign individuals and corporations can **own properties** in SEZs
- **Right to Use** will be given to foreign entities for 30 years, could be extended for 20 years and renewed for 30 years (total 80 years)

### Licensing

- **One stop services** for immigration, labour and land use policies via SEZ administrator
- Expedites investment approval process (to three hours), if all the requirements are met

## 2019 study: Basis of Evaluation

**Qualitative Evaluation** performed during ACI site visits to CMEA office and 5 SEZs in 2019

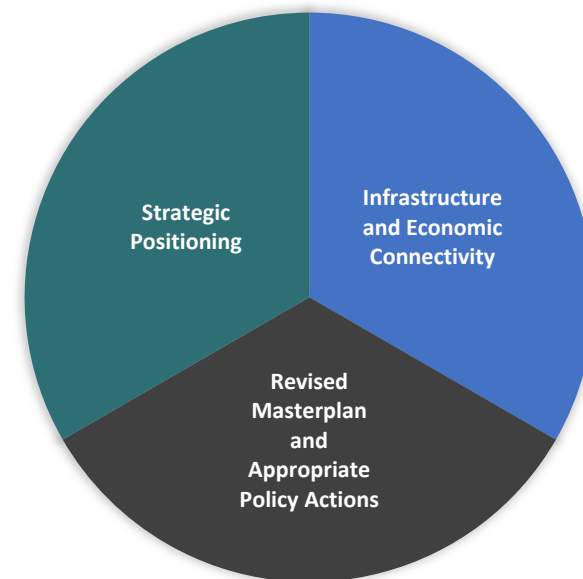
- ACI has consulted with national SEZ management, the administration team of the 5 SEZs, provincial government officials and investors
- Our findings consolidate expert opinions and on the ground assessments

## Framework

### Part 1: Reviewing the SEZ



### Part 2: Policy Recommendations



Sei Mangkei SEZ

# Overview

Government Regulations (PP) No. 29/2012

Started Operations in 2015

Location: Simalungan Regency, Province of North Sumatra

Developer: PT Perkebunan Nusantara III



**Rp 129T**

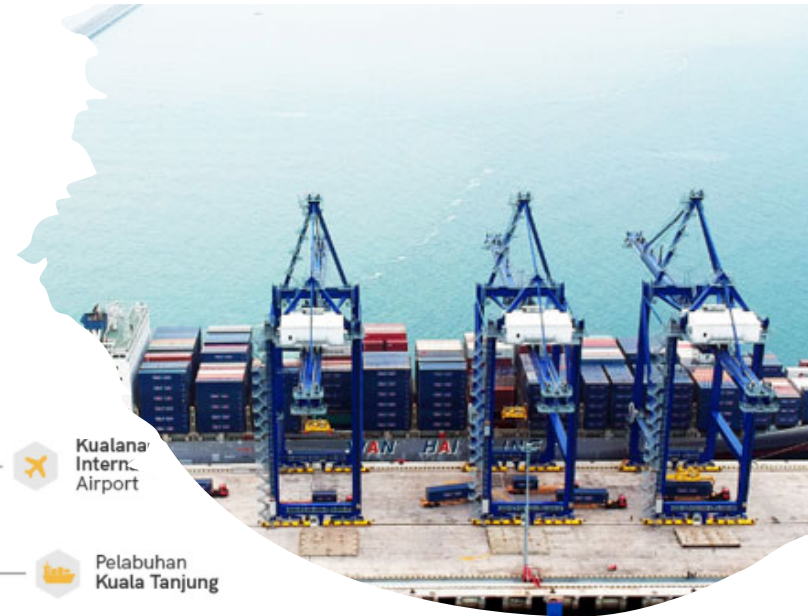
(US\$ 9 billion)

Investment by 2031

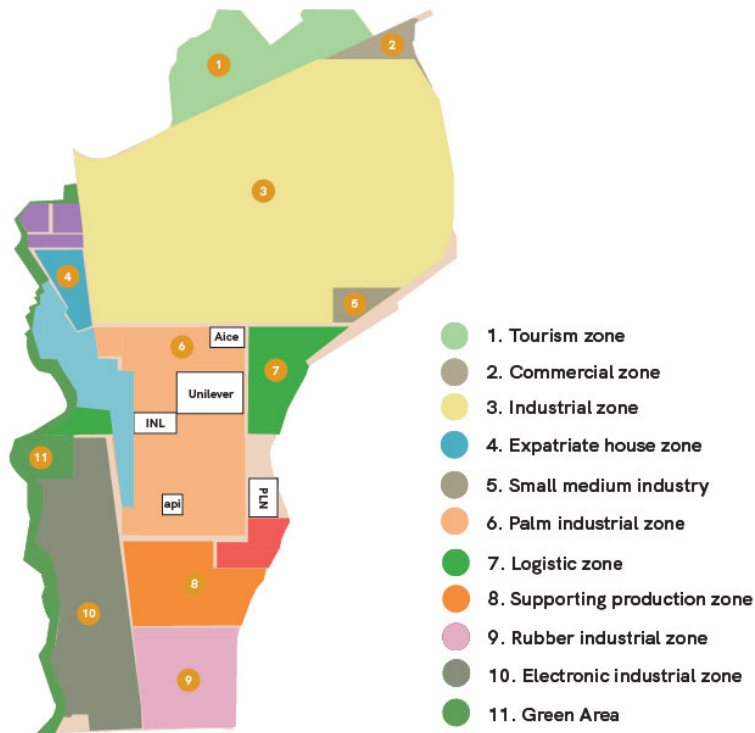


**83,304**

Employment by 2031

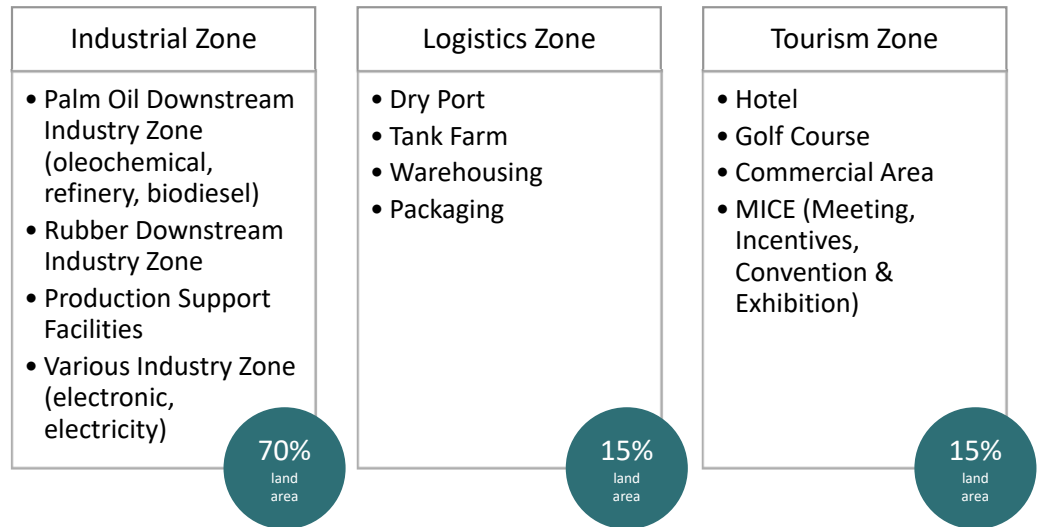


# Masterplan



Total Area: 2002.7 Ha

3 Main Zones:



## Focus Industry 1: Palm oil processing

**Main Products:** Fatty acid, fatty alcohol, surfactant, biodiesel and biogas

- Allocated Area: 245.49 Ha

## Focus Industry 2: Rubber processing

**Main Products:** Tires, latex and automotive engineering parts (e.g. conveyor belt)

- Allocated Area: 84.1 Ha

Sei Mangkei SEZ

# Reviewing the SEZ (1)

## 1. Physical Connectivity

The SEZ is located:

- 38km from Kuala Tanjung seaport
- 148km from Belawan seaport
- 106km from Kualanamu International Airport
- 125km from Medan city

On-site infrastructure: Gas pipeline and telecommunication network

### Areas of improvement:

- High transportation cost to Belawan seaport.
- As of 2019, Kuala Tanjung seaport is not yet operational

## 2. Administrative Efficiency

### Areas of improvement:

- Lack of vision and development goal
- Lack of coordination between the central government and the SEZ administration

## Reviewing the SEZ (2)

### 3. Investment Landscape

Company	Land (Hectares)	Production	Total Employment
PT Unilever Oleochemical Indonesia	27.28	1. Fatty Acid 2. Surfactant 3. Glycerine 4. Soap Noddle	600
Palm Oil Mill PTPN III	13.40	1. Crude Palm Oil 2. Palm Kernel	192
PT Industri Nabati Lestar	7.46	1. Salvaco Cooking Oil 2. Purined Fatty Acid (PFAD) 3. Stearin	124
Biomass Power Plant	5.00	1. 2 x 3,5 Megawatts	80
Palm Kernel Oil Mill PTPN III	3.26	1. Crude Palm Kernel Oil 2. Palm Kernel Milk	77
PT All Cosmos Biotek	4	1. Fertilizer 2. Biotechnology 3. Industrial Solutions	50
PT Alternative Protein Indonesia	51	1. Chitine 2. Protein 3. Lipid	25

**Despite being the first established in Indonesia, the SEZ faced difficulty in attracting investors**

#### Areas of improvement:

- Stringent regulations on foreign investors
- Competition with Kuala Tanjung Industrial Zone which is located closer to the Kuala Tanjung seaport

### 4. Marketing Strategy

#### Areas of improvement:

- Small marketing team (two headcounts)
- The marketing team is unable to converse in English or Mandarin

# Policy Recommendations

## Strategic Positioning

**1) Focus on Key Products such as Palm Oil and Rubber Production**

## Infrastructure and Economic Connectivity

### **1) Enhance Air, Land and Sea Connectivity**

- Air connectivity: Increase flight capacity at the nearest airport
- Land connectivity to Kuala Tanjung seaport:
  - a) Expand railway accessibility
  - b) Construct toll road
- Sea connectivity:
  - a) Accelerate the construction of the Kuala Tanjung seaport

## Revised Masterplan and Appropriate Policy Actions

**1) Greater Coordination between SEZ developer and government agencies**

**2) Improve the Quality and Capacity of the Marketing Team**



Maloy Batuta Trans Kalimantan SEZ

## Overview

Government Regulations (PP) No. 85/2014

Started Operations in 2019

**Location:** East Kutai Regency, Province of East Kalimantan

**Developer:** Melati Bhakti Satya  
PT. Kaltim Kawasan Industri Maloy (for the industrial zone)  
PT. Kaltim Pelabuhan Internasional Maloy (for the seaport)



**Rp 34.3T**

(US\$ 2.4 billion)

Investment by 2025

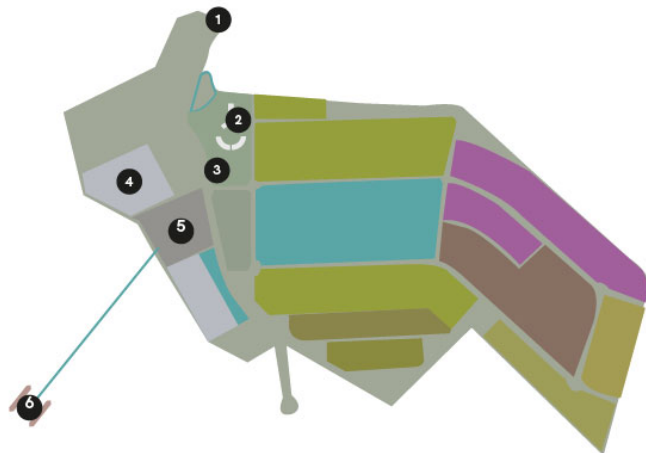


**55,700**

Employment by 2025



# Masterplan



- 1. Pintu Gerbang
- 2. Gedung Perkantoran
- 3. Helipad
- 4. Tangki Timbun
- 5. Kantor Pelabuhan
- 6. Pelabuhan CPO

**Total Area: 557.34 Ha**

## 4 Main Zones:

**Zone 1** Industrial Oleochemical Basic Zone

- Biodiesel Industry
- Basic Oleochemical Industry (industrial fatty acid, fatty alcohol and purified glycerin)

**Zone 2** Food-based Industrial Zone

- Cooking oil, margarine, red palm oil, palmegae, ghee

**Zone 3** Non-Food Industrial Zone

- Personal Care and Household Products Industry
- Industrial production using Palm oil by-products

**Zone 4** Support Facilities Zone

- Administrative offices
- Hospitals, banking facilities, hotel etc.

## Main Focus: Palm oil industry

### Competitive Advantage:

- The East Kutai Regency is rich in palm oil, petrol, gas, mineral and coal
- Located next to the Makassar Strait, an international trading route

### Targeted Output:

- US\$ 2.58B by 2025
- 10M tonnes of biofuel each year

# Reviewing the SEZ (1)

## 1. Physical Connectivity

The SEZ is located:

- 74.3km from Tanjung Bara Airport
- 228km from APT Pranoto International Airport
- 352km from Sepinggan International Airport

### Areas of improvement:

- Lack of air connectivity
- Lack of road connectivity

## 3. Investment Landscape

No investor

## 2. Administrative Efficiency

### Areas of improvement:

- 1) Lack of coordination amongst government ministries
  - 1) Misalignment of interests between Ministry of Transportation and Ministry of Industry
  - 2) Delayed tax collection and disbursement

## 4. Marketing Strategy

Does not have any marketing document or a designated marketing team

# Policy Recommendations

## Strategic Positioning

**1) Focus on Upstream, Midstream and Downstream Palm Oil Production**

**2) Enhance Agricultural Production**

- Agriculture and Aquaculture industry
- Food processing

## Infrastructure and Economic Connectivity

**1) Focus on Establishing Sea and Air Transportation**

## Revised Masterplan and Appropriate Policy Actions

**1) Develop an Effective Marketing Strategy**

Kendal SEZ

## Overview

Government Regulations (PP) No. 85/2019

- The industrial park started operations in 2016
- SEZ status was granted in 2019

**Location:** Kendal Regency, Province of Central Java

**Developer:** Sembcorp Development (Singapore)  
PT Jababeka (Indonesia)

Key  
Targets



**Rp 72T**

(US\$ 5.05 billion)  
Investment by 2025



**20,000**

Employment by 2025

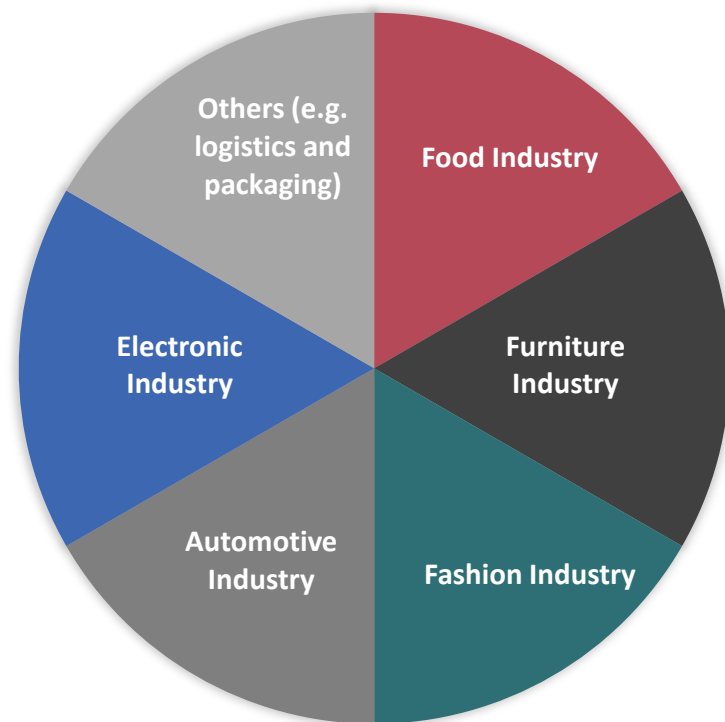


Kendal SEZ

# Masterplan

Total Area: 1,000 Ha (Phase 1)  
2,200 Ha (Phase 2)

6 Key Industries:



Kendal SEZ

# Reviewing the SEZ (1)

## 1. Physical Connectivity

**High Level of air, sea and land connectivity.**

The SEZ is located:

- 20km from Ahmad Yani International Airport
- 21km from Semarang city
- 25km from Tanjung Mas International Seaport

Trans Java toll road connects Semarang to other parts of Java such as Demak, Solo and DI Yogyakarta

**Areas of improvement:**

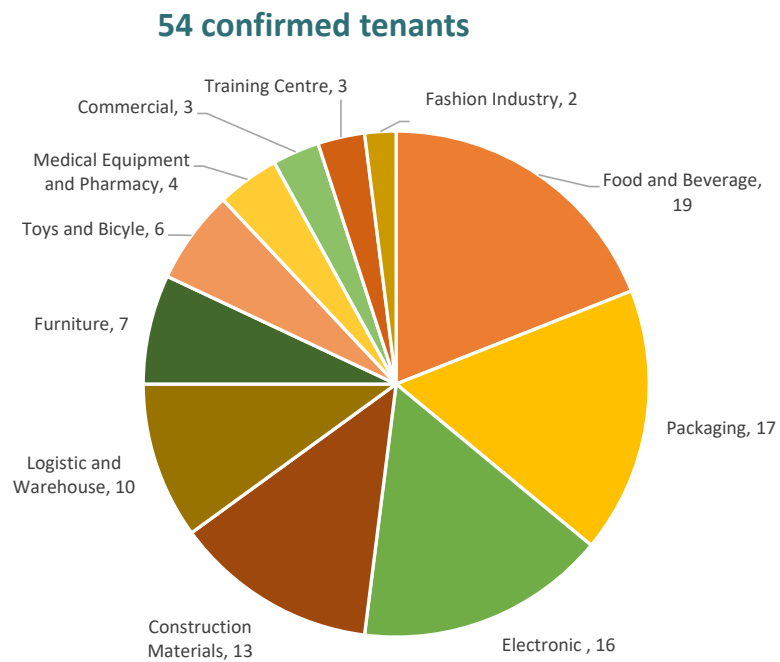
- Tanjung Mas International Seaport is near peak capacity

## 2. Administrative Efficiency

- Efficient administration that provides one-stop solution for investors
- Good coordination with provincial government

## Reviewing the SEZ (2)

### 3. Investment Landscape



### 4. Marketing Strategy

- Marketing team is well-verse in English, Mandarin and Korean
- Marketing materials include a Website and brochures with good visual presentation



# Policy Recommendations

## Strategic Positioning

- 1) Connects MNCs with local MSMEs to establish local supply chain

## Infrastructure and Economic Connectivity

- 1) Build an Online Real Time Digital SEZ e- Platform in tandem with Industry Revolution 4.0
- 2) Increase Flight Frequency
- 3) Develop the Kendal Sea Port

## Revised Masterplan and Appropriate Policy Actions

- 1) KEEZ's potential role as a Lead-Coordinator among SEZs in Indonesia

Tanjung Kelayang SEZ

## Overview

Government Regulations (PP) No. 6/2016

Started Operations in 2019

**Location:** Belitung Regency, Province of Bangka Belitung

**Developer:** PT. Belitung Pantai (Belpi)



**Rp 10.3T**

(US\$ 720 million)

Investment by 2036



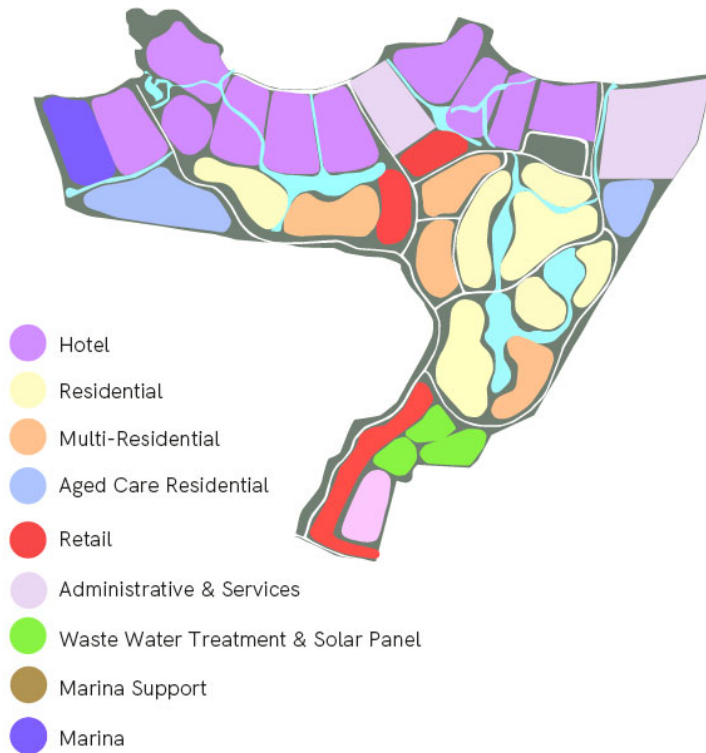
**5,000**

Employment by 2036



Tanjung Kelayang SEZ

# Masterplan



**Total Area: 324.4 Ha**

**Focus industry: Tourism**

**\*The SEZ does not have a Masterplan for review**

Tanjung Kelayang SEZ

# Reviewing the SEZ (1)

## 1. Physical Connectivity

### High air and land connectivity

The SEZ is located:

- 45 min from Jakarta by flight
- 60 min from Singapore by flight

The island has good quality of road

## 2. Administrative Efficiency

- Efficient administration

### Areas of improvement:

- Lack of coordination between SEZ developer and government agencies

## Reviewing the SEZ (2)

### 3. Investment Landscape

#### 2 investors

##### 1) Sheraton Belitung

- a. Total Investment: US\$ 40.4 million
- b. Construction of a 55-rooms resort

##### 2) Sofitel Belitung

- a. Total Investment: US\$ 38.4 million
- b. Construction of a 96-rooms hotel

### 4. Marketing Strategy

- Marketing materials present incentives and available facilities for potential investors
- No existing marketing material and strategy for tourists

# Policy Recommendations

## Strategic Positioning

- 1) Develop Theme-based Attractions across its Tourist Islands
- 2) Integrate Cultural Elements in the Tourism Industry
- 3) Optimize Cruise Tourism and Related Activities

## Infrastructure and Economic Connectivity

- 1) Enhance Airport Connectivity

## Revised Masterplan and Appropriate Policy Actions

- 1) Maintain High Quality Tourist Sites
- 2) Protect Marine Biodiversity
- 3) Improve Coordination amongst Stakeholders

Tanjung Lesung SEZ

## Overview

Government Regulations (PP) No. 26/2012

Started Operations in 2015

**Location:** Pandeglang Regency, Province of Banten

**Developer:** PT Banten West Java Tourism Development



**Rp 92.4T**

(US\$ 6.42 billion)

Investment by 2025



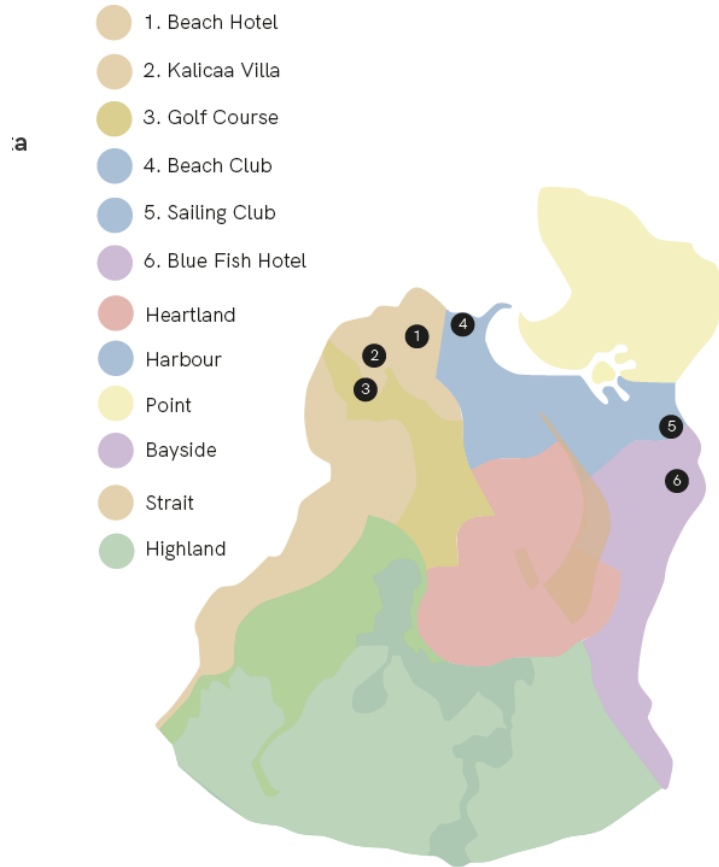
**85,000**

Employment by 2025



Tanjung Lesung SEZ

# Masterplan



**Total area: 1,201 hectares**

Located in West Coast of West Banten which made it an attractive eco-tourism destination with rich marine biodiversity and close proximity to Mount Krakatau and Ujong Kulon National Park

**Four key planning strategies:**

- 1) Enhancing connectivity
- 2) Embracing nature
- 3) Creating unique tourist experience
- 4) Encouraging local employment



Tanjung Lesung SEZ

# Reviewing the SEZ (1)

## 1. Physical Connectivity

### Areas of improvement:

#### Located far away from major infrastructure

- 175km from Soekarno-Hatta Airport

## 2. Administrative Efficiency

- Managed by PT Banten West Java Tourism Development, a local private entity
- Efficient planning and administration

### Areas of improvement:

- Require support from provincial government in post-disaster management, preparedness measures and safety assurance.

## Reviewing the SEZ (2)

### 3. Investment Landscape

No	Investor	Product/Service	Investment Value (Rupiah)
<b>A</b>	Already Invested		
1	Mr. SH	Hotel	6 billion
2	Mr. AJ	Hotel	15 billion
3	Mr. TJ	Hotel	6 billion
4	PT. WK	Hotel	3,370 billion
5	PT. NTL	Pilot Simulator and Training Centre	150 billion
6	PT. NAS	Salakanagara Airport Operator	75 billion
7	PT. NFI	Airnav Education (flying school)	75 billion
8	PT. PP	Accommodation and Tourism Facilities	
<b>B</b>	Signed MoU		
1	PT. Pelindo II	Terminal and Marina	
2	PT. TI Tbk	Tanjung Lesung Digital World	
3	President University	Centre for the Study of Marine Culture	5 billion
4	Perum Damri	Hotel	
5	ISI (Ice World China)	Hotel and Theme Park	500 billion
6	Japan Company	Hotel	300 billion

### 4. Marketing Strategy

The developer markets the SEZ via:

- 1) Investor-Japan investor network
- 2) Tourism promotion via Tourism Board of Indonesia
- 3) Listed on Agoda and Booking.com

# Policy Recommendations

## Strategic Positioning

- 1) Leverage on the Rich Wildlife and Biodiversity
- 2) Establish Partnership with World Class Organizations

## Infrastructure and Economic Connectivity

- 1) Improve Accessibility of the SEZ

## Revised Masterplan and Appropriate Policy Actions

- 1) Enhance Reliability of Disaster Management System