EIBN
EU - INDONESIA
BUSINESS NETWORK

BUSINESS GUIDE

VOLUME I

INTRODUCTION TO
THE INDONESIAN MARKET
SELECTED SECTORS & SPECIAL ECONOMIC ZONES

INTRODUCTION

DURING THE PROJECT IMPLEMENTATION, THE EU-INDONESIA BUSINESS NETWORK (EIBN) HAS COLLECTED A LARGE KNOWLEDGE LIBRARY ABOUT DOING BUSINESS IN INDONESIA. FOLLOWING INTENSIVE MARKET RESEARCHING AND COMPILING OF EXISTING INFORMATION FROM VARIOUS SOURCES AND LOCAL ACTORS, EIBN PRESENTS ITS EIBN BUSINESS GUIDE.

This publication aims to provide guidance to European Union (EU) small and medium-sized enterprises (SMEs) who look to Indonesia as a possible market, attempting to clarify as easily as possible what doing business Indonesia entails, as well as exporting and importing to and from the country. In addition, the business guide also aims to encourage members of 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 SMEs 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 knowledge about business opportunities in Indonesia, but most importantly to help EU companies on the ground. EIBN provides a set of free-of-charge and useful features on its Web Portal (www.eibn.org) and 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 which 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 high 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 that we offer as a free 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 change frequently, even though some of them have been issued recently. This, of course, highly depends on the sector. Particularly regulations which are released by the National Agency of Food and Drug Control (BPOM, *Badan Pengawas Obat dan Makanan)* tend to change quickly, effecting Food & Beverages, Cosmetics or 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 2015, while reverting to previous years where the most updated information was either not available or inaccessible. This publication is part of the EIBN Business Guide series, which is comprised also of volume II *How to EXPORT & SOURCE* and volume III *How to SET UP A BUSINESS.*

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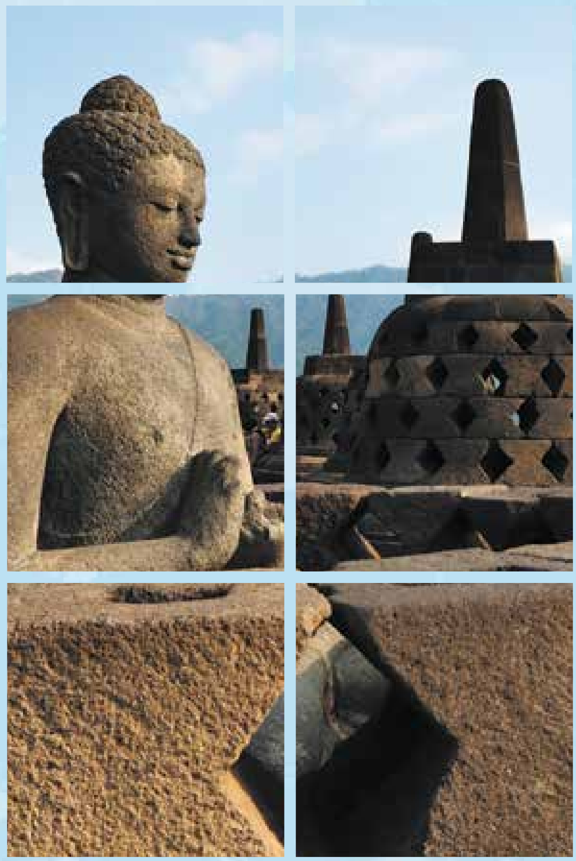


INDONESIA COUNTRY PROFILE

1. INDONESIA: COUNTRY PROFILE

1.1 QUICK FACTS

Official Name	Republic of Indonesia
Political System	Presidential Democracy
Capital	Jakarta
Area	1,904.569km^2
Population	254 million (2014 est.)
Age Distribution (2014)	0-14 years : 26.2% 15-24 years : 17.1% 25-54 years : 42.3% 55-64 years : 7.9% 65 years and over : 6.4%
GDP (nom.)	EUR 710 billion EUR 2870 per capita
Currency (2015)	Indonesian Rupiah (IDR/Rp) EUR 1 ~ IDR 15.600

1.2 KEY SOCIO – POLITICAL FACTORS

Indonesia is:

- The 4th most populous country in the world, with a population of around 250 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 Islam.
- The biggest archipelago in the world consisting of over 17,000 islands spanning three time zones.

Indonesia is a member of a number of regional and international organizations and has ratified many bilateral and multilateral trade and investment related agreements.

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. With the establishment of the AEC in 2015, 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 five percent or less by 2010, and by 2015 for the four newer members (Vietnam, Laos, Myanmar and Cambodia). 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 foreign direct investment (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).

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 in 2013, 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 Gross Domestic Product (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 neighboring 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

- Indonesia's spending on healthcare is expected to grow by close to 14% annually, reaching US$61 billion by 2018.
- By 2019, an estimated 240-260 million Indonesians will be covered by a newly implemented National Health Insurance program.
- The National Health Insurance program will generate 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 20 hospitals located in 15 cities and by 2017 is projected to have more than 50 hospitals in more than 30 cities and regencies across the Indonesian archipelago.

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

2.2 INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

- Indonesia is emerging as a major ICT market.
- It is now the world's second largest market for both Facebook and smartphones, and has Twitter's third largest user base.
- 275 million mobile phones in use and 175 million expected internet users by 2016.
- The Palapa Ring[1] Project will further boost the growth of the ICT market and the number of internet users.
- The market potential for providing enterprises with ICT services in Indonesia is expected to reach US$3 billion by 2015, while the potential for consumer services is estimated at approximately US$1.5 billion.

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.

1 For insights on the Palapa Ring Project consult EIBN, ICT Sector Report, 2015. section 1.3.

The number of Internet users in Indonesia is also expected to rocket from 40 million in 2011 to 175 million by 2016, accompanied by a boom in data connection subscribers, which is expected to grow from 52 million in 2011 to 167 million in 2016. This significant market growth will translate into business opportunities for mobile operators and companies providing Internet-based services to consumers and enterprise.

Business Potential

Finance IT, e-logistics, cloud computing and e-commerce

Finance IT

- Indonesia's ratio of mobile phone subscribers was 121% in 2013 (278 million mobile phone subscribers out of 250 million Indonesians).
- In 2012, around 50% 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-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.
- IT Solutions are set to cut down costs and improve the quality of logistics and transport systems.

Cloud Computing

- Cloud Computing has emerged as a major element of IT policies for most Indonesian businesses. The market is set to reach more than US$120 million by 2017.
- Basic services such as system integration, support systems, training, professional services and outsourcing will continue to be in high demand.
- Telecommunication providers are looking for cloud services partners.

E-Commerce

- E-Commerce grew by 66% since 2011 and reached a turnover of US$5 billion in 2015.
- There are more than 22.5 million e-shoppers in Indonesia that spend on average US$ 220 per year.
- In 2015, the most popular commodity groups and services for e-commerce were flight ticket and hotel bookings (turnover: US$ 1.1 billion), clothing (US$ 782 million), home and garden (US$ 349 million) and media and entertainment (US$ 336 million).

2.3 FOOD & BEVERAGE

- In 2013 the Food and Beverage (F&B) sector recorded growth of 8.2%, contributing 7.42% to the country's GDP.
- The sector is expected to keep on rising in coming years, mainly due to rising incomes and increased spending on food by the growing middle class.
- The food consumption growth in 2014 amounted to 7.5% and is forecasted to grow 6.9% by 2017.
- For alcoholic drinks, the growth amounted to 11.7% in 2014 and is forecasted to grow 8.4% by 2017.
- Growth in soft drinks sales increased by 9.5% in 2014 and is expected to increase by 8.8% by 2017.

Indonesia is the fourth most populous country in the world. Developing the agriculture, F&B 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.[2]

Business Potential

Halal products, 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 A closer look at the Regulations and Duties in place on the Indonesian market consult EIBN, Sector Report Food & Beverages, 2014, p. 19.

2.4 AUTOMOTIVE

- More than 1 million cars were sold in 2012, exceeding all estimates (up 25% over 2011).
- In 2013, despite a slight slowdown in real GDP growth to 5.8%, another sales record was set in the Indonesian car market with a total of 1,229,901 units sold.
- Indonesia is expected to overtake Thailand as the biggest automotive market in ASEAN.
- However, it is expected that a so-called "low cost green car" (LCGC) regulation will inspire the most significant changes in the Indonesian automotive landscape.

Issued by the Indonesian government in 2013, LCGC exempts cars that meet certain requirements in the area of production location, fuel efficiency and price from the luxury tax. The price advantage the new law generates for the LCGC industries is widely expected to transform the market. This segment is estimated to have a deep future impact on consumption, especially in the lower sector and among first-time car buyers and those switching from motorcycles to cars. This development may be further enhanced through the planned phase-outs of fuel subsidies and the expected general awareness increase regarding fuel efficiency.

Business Potential

Production facilities, mechanical tools

2.5 AGRIBUSINESS

- The agriculture and livestock sector contributed roughly 10% to GDP in 2014.
- 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 to other ASEAN nations. However it is growing steadily due to increasing 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 the agriculture industry, to achieve its goal of self-sufficient future food supplies, and has moreover initiated favorable investment policies to attract both local and international investors.

The GOI's 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.

Indonesia's dairy consumption was 13.4 liters per capita per year in 2013, while meat consumption is 4.3 kg per capita per year, of which beef and buffalo consumption is 0.26 kg per capita per year, and chicken consumption is 3.95 kg per capita per year.

Animal medicines

The market reached US$246.1 million in 2013, an increase of 7% over the previous year. Poultry medicines contributed more than 70% of the total.

In 2014, poultry medicine sales reached US$388.4 million, of which US$223 million were spent on premix and the rest on vaccine and pharmaceuticals.

Agriculture seedling

Imported seeds are still required to balance domestic shortage.

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

Fertilizer

The sector is dominated by state owned enterprises (SOE) under Pupuk Indonesia Holding Company, especially in urea as well as nitrogen, phosphorus and potassium (NPK) which they also export.

Indonesia imported about 80% of its mixed compound fertilizer. All 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 Indonesian companies are 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 size of the Indonesian textile sector grew by 1.7% in mid-2013, performing well above other sectors.
- It attracted 5.6% of Indonesia's industry investment in the third quarter of 2012, with a total of IDR 2.6 trillion.
- Indonesia was ranked in the top ten global exporters in 2011, with a total market share of 1.8% and contribution of US$ 12.8 billion.

- Indonesia is the fourth biggest footwear exporter in Asia after China, Hong Kong, and Vietnam. It boasts a 2.8% global market share, with an average selling price of US$ 15.65. The top export destinations are the United States, followed by the European Union and emerging markets such as Brazil, Mexico, Panama, South Africa and Russia. Sports footwear accounts for 79% of exports.

Acknowledged as one of the industries that "oil" the Indonesian economy, the textile and footwear sector continues to be a major contributor to the international market. The Indonesian government has displayed confidence in the potential of this sector, showing support for further development by implementing a machinery restructuring program for textiles and footwear in 2007. Price discounts and equity participation schemes in machinery funding have attracted increasing participation levels: 142 companies participated in the program in 2012. Weaving machinery is nonetheless one area where the Indonesian textile sector shows deficiencies, particularly related to processing knowledge and current trends information.

Business Potential

Textile
Production of man-made fibers, particularly polyester, nylon and rayon, man-made and cotton yarn spinning, weaving and knitting, dyeing, printing and finishing, and apparel manufacturing

Footwear
Sports shoes, boots, formal and style shoes, casual shoes and leisure sandals, specific footwear

2.7 CLEANTECH

- Macro developments such as urbanization, rapid growth, climate change and exhaustion of resources are driving the need for investments in clean technologies in Indonesia.
- New clean industries are coming on board to drive the future growth for clean technologies.
- These particular categories are relevant when discussing Indonesia's current approach to an environmental paradigm change in the country, as Indonesia has a national commitment to reduce carbon emissions by 26% in 2020.

Business Potential

Clean energy, green building, waste water, solid waste

Clean energy

Indonesia's primary energy supply is heavily dependent on fossil fuels; oil accounts for 48%, while natural gas and coal each account for 26%. This is posing great problems, especially since Indonesia became a net oil importer 10 years ago with only 12 years of reserves left. At the same time, energy demand is expected to grow by about 8-11% depending on the region, according to the Electricity Power Supply Business Plan (RUPTL, *Rencana Usaha penyediaan Tenaga Listrik*).[3]

Green building

Construction of buildings of certain types and sizes must meet the requirements of green building. This applies to both new buildings and renovation of existing buildings.

New buildings are buildings that are currently in the planning stage. The technical requirements for green building of new buildings include:

- **Energy efficiency**

  Energy efficiency includes the efficiency of the building veil systems, ventilation systems, air systems, lighting systems, building transportation systems, and electrical systems.
- **Water efficiency**

  Water efficiency includes the planning of water-saving sanitary equipment and planning of the use of water.
- **Indoor air quality**

  Indoor air quality must calculate the air circulation in the room and the input of fresh air so it does not harm the occupants and the environment.
- **Land and waste management**

  Land and waste management include the requirements regarding spatial landscape planning on the inside and outside of the building and planning of rainwater reservoir systems, supporting facilities, and solid and liquid waste management.

Existing buildings are buildings that are under construction and/or already in the utilization stage. The technical requirements for green building of existing buildings include:

- **Conservation and energy efficiency**
- **Conservation and water efficiency**

  Conservation and water efficiency include the efficient use of water and water quality monitoring.
- **Indoor air quality and thermal comfort**
- **Operational management/maintenance**

  Operational management/maintnance activities include monitoring and evaluation activities.

3 More about Indonesia's future energy demand consult: PLN, Power Supply Business Plan 2012-2021 (RUPTL), 2013.

Waste water

Within the framework of the Acceleration of Urban Sanitation Development (PPSP, *Percepatan Pembangunan Sanitasi Permukiman*) the national government has helped local governments to prepare City Sanitation Strategies (SSK, *Strategi Sanitasi Kota*). As of mid-2012, 240 cities and regencies had prepared SSKs, and 330 of the 496 local governments were expected to have completed them by 2014. The SSKs contain the policies and strategies for a comprehensive sanitation development at the district level, and are intended to provide clear directions for the construction of a sanitation system. [4]

Solid waste

Indonesia's rapid growth and improvement of living standards are generating increasing levels of municipal solid waste (MSW). About 80,000 tons of solid waste are generated daily, of which only 34,000 tons are collected and disposed in the country's approximately 380 properly designed and managed landfills, of which several are approaching their maximum capacity.

While there is an obvious need to minimize the generation of waste and to reuse and recycle waste, the European private sector should explore the potential of solid waste as a raw resource for commercial purposes, as the technologies for producing energy for electricity from waste shows a great business potential in the Indonesian market. Waste-to-Energy (WtE) technologies, through the recovery of substantial energy and heat out of different Indonesia's waste streams, present an opportunity to decrease the amount of waste reaching landfills which can thus be better managed to achieve safe and controlled disposal, and at the same time, address Indonesia's increasing energy demand from its growing economy and population.

2.8 MARITIME

- Indonesia's strategic location: Over half of all international shipping goes through Indonesian waters.
- The government project known as Pendulum Nusantara includes the planned construction of at least 6 inter-linked deep-water ports, and another 22 ports including

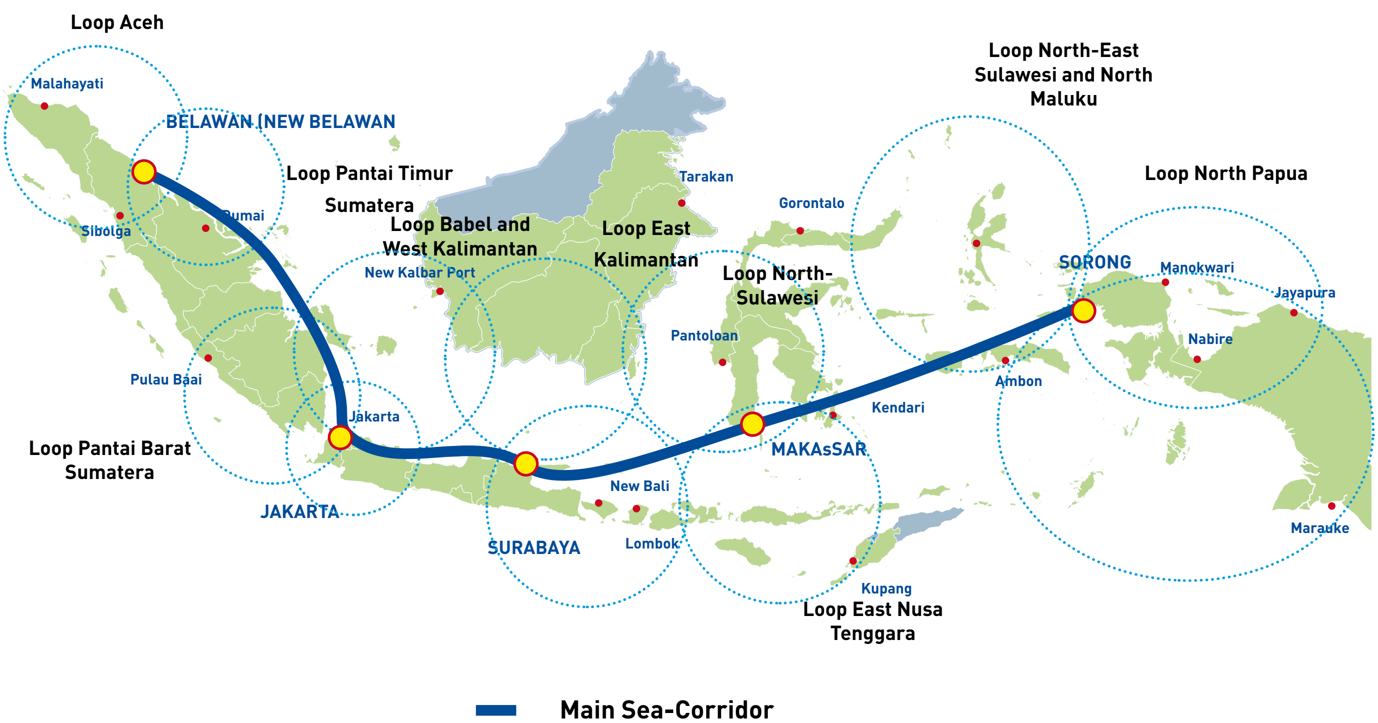
4 For more information on urban sanitation strategy, consult EIBN, Sector Report Cleantech, 2015, p. 13.

completely new and renovated ones.

- The Indonesian shipbuilding industry is forecasted to record 10% growth. Between March 2005 and November 2013, the number of Indonesian vessels increased from 6,041 to 12,774.
- For the period of 2012-2015, the priority is on increasing the capacity of local shipyards. A significant rise can be expected in the demand for tankers and freighters.

The current port projects were part of the past administration's Masterplan for Acceleration and Expansion of Indonesia's Economic Development (MP3EI, *Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia*). The grand project "Pendulum Nusantara", whose implementation has already begun, is continued under the leadership of the president Joko "Jokowi" Widodo.

Development Scheme of Pendulum Nusantara's Main and Sub Corridor



Source: IPC, Energizing Trade Energizing Indonesia, 2012

Business Potential

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

2.9 AVIATION

- Indonesia is home to 296 airports.
- 26 of these airports are commercial airports in big cities managed by the state-run airport operators PT Angkasa Pura I (AP I) and PT Angkasa Pura II (AP II). The others fall under Transportation Ministry's Technical Management Unit (UTP).
- 19 new airport projects are currently in the pipeline.
- Increasing tourism, international trade and the development of regional economic centers is driving demand for improved aviation infrastructure.

Most of the new airports are to be built in eastern Indonesia, where the topography is challenging and airports are the most effective way to distribute both people and goods.

There is an urgent need for new runways and terminals to accommodate the growth in passenger numbers. Jakarta's Soekarno-Hatta International Airport, which handles the lion's share of Indonesian air traffic, is running far above its intended capacity, serving some 58 million travelers in 2012 instead of the 22 million it was designed for. An expansion of Terminal 3 will boost capacity to 62 million passengers, but further upgrades will be needed before long. Almost all of the country's commercial airports are also running far beyond their intended capacity.

The fleet expansion of major carriers necessitates a similar increase in the capacity for aircraft maintenance, repair and overhaul (MRO). Having sufficient MRO facilities of their own is vital for airlines to contain their operating costs and buttress their independence. This creates a strong case for investment in hangars and equipment.

Besides infrastructure bottlenecks, the shortage in human resources poses a threat to the future growth of Indonesia's airline industry.

Currently, Indonesia requires around 1,000 new pilots every year until 2015 but cannot produce even half that number. Even greater is the need for technicians and engineers, while air traffic control officers and safety inspectors are also in short supply. Foreigners currently help to fill the gap but the government is keen to avoid this where possible, providing a potential investment case for pilot schools and other training institutions.

Business Potential

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

INDONESIA'S SPECIAL ECONOMIC ZONES AND INDUSTRIAL ESTATES

3. INDONESIA'S SPECIAL ECONOMIC ZONES AND INDUSTRIAL ESTATES

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.[5]

Generally, the development of SEZs is 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,[6] 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

5 Rachmi Hertanti & Laura Ceresna-Chaturvedi, Working and Living Conditions In Special Economic Zones In India And Indonesia, 2012, p. 6

6 Ibid.

facilities to attract investors and create employment opportunities.[7] In these designated estates, goods are traded with few barriers (quotas, tariffs, duties) imposed by customs authorities.[8] 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 among others.[9]

The generic term SEZ encompasses many types of economic zones that differ regarding the specific activities carried out within each particular zone. The zones include Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates (IE), and Free Ports.[10] 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.[11] This leads to the conclusion that SEZs in Indonesia tend to be focused on generating large inflows of foreign investment into the manufacturing industry.

8 Existing Special Economic Zone (SEZ)

Source: BKPM, Investing in Indonesia, National Medium-Term Development Plan 2015-2019, 2015 [12]

7 Ministry of Foreign Affairs of the Republic of Indonesia, Indonesian Special Economic Zones, 2015, p. 1.
8 Ministry of Foreign Affairs of the Republic of Indonesia, Indonesian Special Economic Zones, 2015, p. 1.
9 A quick overview is provided by the Ministry of Foreign Affairs of the Republic of Indonesia, Indonesian Special Economic Zones, 2015, p.2ff.
10 UNIDO, Economic Zones in the ASEAN, 2015, p. 26.
11 Syamsul Hadi, Globalization, Neoliberalism, and Local Development (Studies on Special Economic Zones in Indonesia), 2011, p. 20.
12 According to BKPM, there currently are eight SEZ, while eleven are going to be developed until 2019.

3.2 POLICY AND ADVANTAGES

Besides the Investment Coordinating Board of the Republic of Indonesia (BKPM, *Badan Koordinasi Penanaman Modal*), another relevant government agency monitoring as well as participating in regulating SEZ development is the National Council for Special Economic Zones.[13] Regarding the relevant legal framework, in each SEZ favorable conditions for SMEs and cooperatives are to be made available.[14] 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 follows:

Fiscal Incentives of SEZ

SEZ Fiscal Incentives

Investment Allowance

30% reduction of the investment's net income

Accelerated depreciation on amortization

Imposition on income tax on dividends which is paid on foreign tax subject to 10%

Compensation of losses not longer then 10 years

Excise

Excise is exempted for raw direct materials and supporting materials for the purpose of production

Value Added Tax

Companies as well as individuals are exempted from the VAT or Luxury Goods Sales Tax on imports into and export from SEZ

Tax Holiday

Tax relief facility between 5 and 10 years as of the commencement of the commercial production

Thereafter an income tax reduction of 50% for the coming 2 years

Additional extension possible based on the decision of the Minister of Finance

Import Duties

Exemption from import duties on the import of machines, goods, and materials for production for 2 years

Reduction of at least 30% of the machine's total value for 4 years for companies using locally-produced machines for their production

Source: Own Graphic, Information provided by BKPM, Applicable Laws and Regulations to SEZ, 2015

Please note, requirements to be met for being granted admission to these incentives are often connected to a certain industry or thresholds. For instance, to be authorized for tax holiday a capital investment at a minimum of one trillion IDR is necessary including 10% of asset investment on a bank account in Indonesia ahead of the commercial production commencement.[15]

13 The establishment of this Council is based on Presidential Decree Number 8/2010.

14 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.

15 More about criteria and certain conditions to be met in order to being granted to the benefits: BKPM, Invest in Remarkable Indonesia, 2015. Frequently Asked Questions on Investment, p. 10ff.

Non-fiscal Incentives of SEZ

SEZ Non-Fiscal Incentives

Land Easiness

Regulations and processes to obtain land rights and land acquisition are simplified

Land rights are granted for those who already posses land (land ownership)

Licensing Service

Integrated One-Stop-Service by BKPM to process licensing and debottleneck related issues fast and transparently.

Any licensing documents are rewired to submit directly to BKPM

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

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

Regional Infrastructure Provision and Strategic Location

Regional Action Plans for ensuring integrated infrastructure development for smooth operations on the ground

Priority to Trade Zone's infrastructure regional development

Source: Own Graphic, Information provided by BKPM, Applicable Laws and Regulations to SEZ, 2015 [16]

The Negative Investment List (DNI, *Daftar Negatif Investasi*)[17]

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 prior to 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.

Relevant laws and regulations regarding SEZs are:

Establishment of SEZ: Presidential Decree No. 25/2007, Art. 31

Investment Allowance: Ministry of Finance, Income Tax Law No. 16 – 20/2000

Tax Holiday: Ministry of Finance, Tax Holiday Regulation No. 130/PMK.011/2011

Import Duties: Ministry of Finance, Import Duty Facility Regulation No. 176/PMK.011/2012; Amendment of No. 176/PMK.011/2009

Value Added Tax and Excise Presidential Decree No. 39/2009 Art. 32 (1b,c)

Negative Investment List: Presidential Regulations No. 39/2014, Annex I

General: Presidential Decree 39/2009

16 For more information about non-fiscal incentives, refer to Ministry of Foreign Affairs of the Republic of Indonesia, Indonesian Special Economic Zones, 2015, p.2.

17 For more information about non-fiscal incentives, refer to Ministry of Foreign Affairs of the Republic of Indonesia, Indonesian Special Economic Zones, 2015, p.2.

3.3 FREE TRADE ZONES (FTZ)

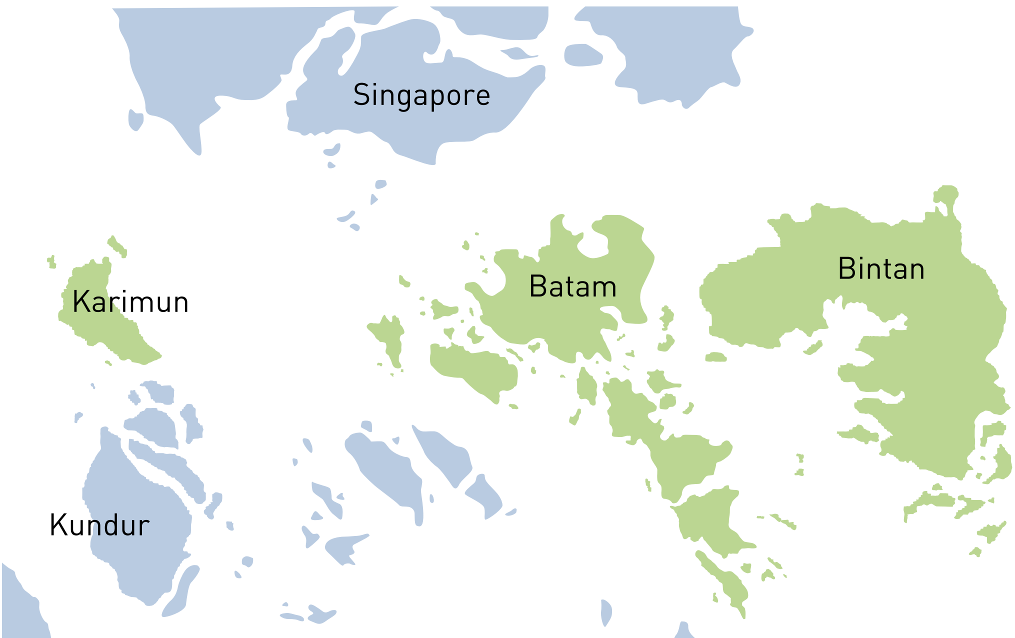
3.3.1 INTRODUCTION

As a sub-type of SEZ, FTZs are areas within the jurisdiction of the Republic of Indonesia focusing on free trade, which are treated as if they were outside of the Indonesian customs territory. Therefore the business activities conducted within FTZ also enjoy special conditions regarding tariffs and non-tariff barriers.[18] 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 have 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



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.

18 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).

3.3.2 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 goods from and to Batam – Bintan – Karimun Free Trade Zones.

The standards to be met are the following: [19]

- 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 (BPK, *Badan Pengusahaan Kawasan*) 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;
- It is not required to register as a Taxable Enterprise (PKJ, *Pengusaha Kena Pajak*) 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 Indonesian Rupiah is the legal medium of payment within the Free Zone. Entry and removal of Rupiah 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[20] 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 are equally applicable. Moreover, BBK has an abundance of potential workers. A marked difference to SEZ is, that within a FTZ import and export duties as well as income tax, VAT, and sales tax on imported capital goods, equipment, and materials are exempted

19 Investment and Promotion Board of Kepulauan Riau Province, Investment Profile of Kepulauan Riau Province, 2013, p.19.

20 Regulation of the Ministry of Trade No. 44/2007, Art. 13.

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.[21]

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

Challenges

There are some reported challenges regarding investment climate in BBK FTZ, namely a declining competiveness and the FTZ's institutional setting.

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.[22] 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.[23] The overlapping regulatory authorities lead to confusion, delays, and slow decision-making-processes. A current measure to tackle the legal uncertainties and to improve the institutional setting is to further centralize the management of FTZs in order to steer efforts to attract more investors. The Jakarta Post recently reported that the central government is considering appointing Trade Minister Thomas Lembong to chair the FTZ Management Board and take over the leadership from the provincial governor, based on the reasoning that FTZs operate on an international level and are better managed by the national government.[24]

Another 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[25].

The declining competitiveness is connected to a critical extent 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[26]. Even though FTZ's essential comparative advantage for attracting foreign investors is cheap labor, the availability of high-skilled labor seems to be more decisive 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, there are action plans to involve the private sector using public-private-partnership (PPP) to ease the strain on the public budget.[27]

21 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.

22 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.

23 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.

24 Jakarta Post, Trade minister may chair Batam FTZ: Sofyan (Article from May 4, 2015).

25 Umar Juoro, Khee Giap, Kong Yam, Joint Expert Study on Competitiveness of Batam-Bintan-Karimun, 2013, part II p. 35-36.

26 Jakarta Post, Trade Minister may chair Batam FTZ: Sofyan, (Article from May 4 2015).

27 Umar Juoro, Khee Giap, Kong Yam, Joint Expert Study on Competitiveness of Batam-Bintan-Karimun, 2013, p. 35.

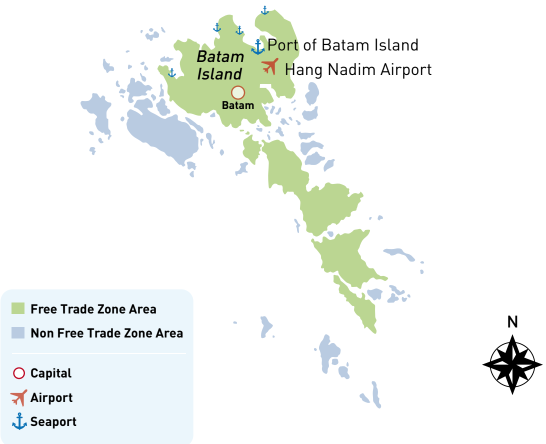
The chart below provides a short overview of average expenses of carrying out business in the FTZs.

Cost of Doing Business in BBK FTZ

CLASSIFICATION	BATAM US$	BINTAN US$	KARIMUN US$
Warehousing	From 0.04/m2/day	0.04/m2/day	
Container Storage	From 1.1/box/day	1.1/box/day	
Heavy Material Handling Equipment	From 6/hour		
Corporate Tax	From 10% max to 30%	10% max to 30%	10% max to 30%
Internet Services	From 50/month		
Minimum Wage for Unskilled Workers	From 88/month	85/month	85/month
Skilled Workers	From 100 to 175/month		
Factory Supervisor	From 160 to 400/month		
Manager	From 645 to 1800/ month		
Water Tariff	From 1.1 to 2/m3	1.1/m3/month	0.85/m3
Electricity Tariff (Demand Charge)	From 2 to 2.7 Kva/ month		0.05/Kwh
Telephone Tariff (Local)	From 0.03/2 minutes	0.03/2 minutes	0.03/2 minutes
Telephone Tariff (SLJJ)	From 0.05 to 0.09/minutes	0.05 to 0.09/minutes	0.05 to 0.09/ minutes
Housing Rental	From 200 to 1000/ month	2,500 to 3500/year	2,500 to 3,500/ year
Office Rental	From 10 to 15/sqm/ month		5 to 9/m2/ month
Rental Rate Industrial Estate	Negotiable	2.8/m2month (Lobam)	
Land Cost	From 2 to 7/m2/30 years full payment	33.68/m2 (Lobam)	0.55 to 5 m2

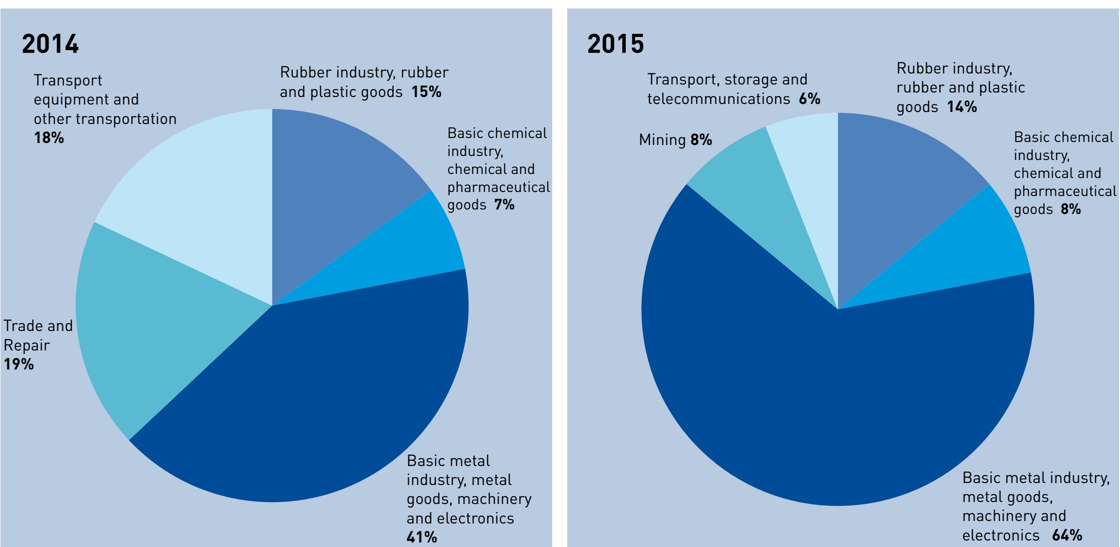
Source: Investment and Promotion Board of Kepulauan Riau Province, Investment Profile of Kepulauan Riau Province, Appendix IV "Cost of Doing Business in BBK FTZ", 2013

Batam



Batam is considered 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 and computer components. 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 low 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. The Batam FTZ is home to 22 Industrial Estates and more than 1,000 multinational Companies are located here. Until 2014, US$17.71 billion in total investment have been made (21% by public contribution, 36% domestic shares, and 43% foreign investment).[28]

Investment in Batam FTZ According to Sector



Source: Batam Indonesian Free Trade Zone Authority (BIFZA), Development of Foreign Investment per Sector (until June), 2015

28 Batam Indonesian Free Trade Zone Authority, Batam Guide, Facts & Statistics – Batam in Figures, 2014.

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.[29]

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.[30]

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 and operation of such estates. In 1996, Presidential Decree

29 For more information on Bintan FTZ, refer to Investment and Promotion Board of Kepulauan Riau Province, Bintan Regency, 2013.
30 For more information on Karimun FTZ, refer to Investment and Promotion Board of Kepulauan Riau Province, Karimun Regency, 2013.

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 generally offer:

- **Infrastructure**

  Roads, water supply, drainage systems, waste water systems, electricity and telecommunications

- **Special facilities**

  Employee housing, office space, hotels, fiber optic telecommunications cables and special transport services

- **Service**

  Medical services, fire brigade, security, commercial services and recreational area

Industrial facilities are suited to many manufacturing and industrial activities because investors can choose whether to plug into a commercially ready-to-use factory with complete facilities, or acquire a piece of land to build a factory customized on production requirements.[31]

Some industrial parks offer a complete package, which even includes the processing of permits and licenses with the relevant authorities and the recruitment of workers from the local pool and from the rest of Indonesia who are readily available.

Land Price

In Indonesia industrial land is in high demand. So to keep up with economic development almost 1000ha per year are required, from which nearly 60% is located in West Java. According to the Industrial Park Association (HKI, *Himpunan Kawasan Industri*), industrial land in Indonesia had grown to more than 27,300ha in 2012 in total. Authorities determined to use 70% of the land available to build industrial areas, while the remaining 30% are assigned to infrastructure development and open green spaces.[32]

In recent years, land prices have skyrocketed. Serang, Bekasi and Karawang are witnessing a significant increase in land prices, largely due to the scarcity of land and continued demand.[33] The high demand in these areas has led many land buyers to acquire pieces of land speculating that it will become a SEZ one day, thus allowing them to make a high margin on reselling it.

The main industries acquiring land in the SEZs are the automotive, chemical, steel-related, F&B, consumer goods, and manufacturing industries as well as warehouse companies.[34]

31 Batam Industrial Development Authority, Investment Guidelines, Batam Indonesia, n.d., p.1.
32 BKPM, Investment Opportunities – Industrial Zones, 2015.
33 To gain in-depth knowledge about the recent development of industrial land prices refer to Colliers International, Industrial Estate Sector, in Research & Forecast Report, 4Q 2014.
34 To gain in-depth knowledge about the recent development of industrial land prices refer to Colliers International, Industrial Estate Sector, in Research & Forecast Report, 4Q 2014.

Map of Major Indonesia's Industrial Park (58 Locations)

NORTH SUMATERA (3)

1. Medan Industrial Area
2. Medan star Industrial Estate
3. Pulahan Seruai Industrial Estate

WEST SUMATERA (1)

4. Padang Industrial Park

RIAU (2)

5. Industrial park Dumai
6. Industrial park Tanjung Buton

BATAM (8)

7. Batamindo Industrial Park
8. Bintang Industrial Park
9. Kabil Integrated Industrial Estate
10. Panbil Industrial Estate
11. Puri Industrial Park 2000
12. Tunas Industrial Park
13. Union Industrial Park
14. West Point Maritime Industrial Park

BINTAN (1)

15. Bintan Industrial Park

JAKARTA (3)

16. Cilandak Commercial Estate
17. Pulogadung Industrial Area
18. Nusantara Bonded Zone

BANTEN - CILEGON (2)

19. Cilegon Industrial Area
20. Jababeka Industrial Estate

BANTEN - SERANG (2)

21. MGM Cikande Integrated Industrial Park
22. Modern Cikande Industrial Estate

BANTEN - TANGERANG (3)

23. Cikupamas Industrial Area & Warehousing
24. Millenium Industrial Estate
25. Bumi Serpong Damai Techno Park

WEST JAVA – BOGOR (2)

26. Cibinong Center Industrial Estate
27. Sentul Industrial Area

WEST JAVA (1)

28. Rancaekek Industrial Area

WEST JAVA – KARAWANG (6)

29. Bukit Indah Industrial Park
30. Kujang Industrial Area
31. International Industrial City Area
32. Mitrakarawang Industrial Area
33. Suryacipta City of Industry
34. Daya Kencanasia Industrial Park

WEST JAVA–BEKASI (7)

35. Bekasi International Industrial Estate
36. East Jakarta Industrial Estate
37. Greenland International Industrial Centre
38. Jababeka Industrial Estate
39. Gobel Industrial Area
40. Indonesia China Integrated Industrial Area
41. Lippo Cikarang Industrial Park
42. Marunda Center

WEST JAVA – PURWAKARTA (2)

43. Lion Industrial Area
44. Kota Bukit Indah Industrial City

CENTRAL JAVA (7)

45. Candi Industrial Area
46. Tugu Wijaya Kusuma Industrial Area
47. Terboyo Semarang Industrial Area
48. Wonogiri Industrial Area
49. Bugangan Baru Semarang Small Industry Community
50. Bukit Semarang Baru Industrial Park
51. Tanjung Emas Export Processing Zone

EAST JAVA (3)

52. Gresik Industrial Area
53. Ngoro Industrial Park
54. Surabaya Industrial Estate Rungkut

EAST KALIMANTAN

55. Kaltim Industrial Estate
56. Kariangau Industrial Area

SOUTH SULAWESI

57. Makasar Industrial Area

CENTRAL SULAWESI

58. Palu Industrial Area

Source: BKPM, Investing in Remarkable Indonesia, Indonesia Investment Promotion Centre Singapore, 2014, p.14

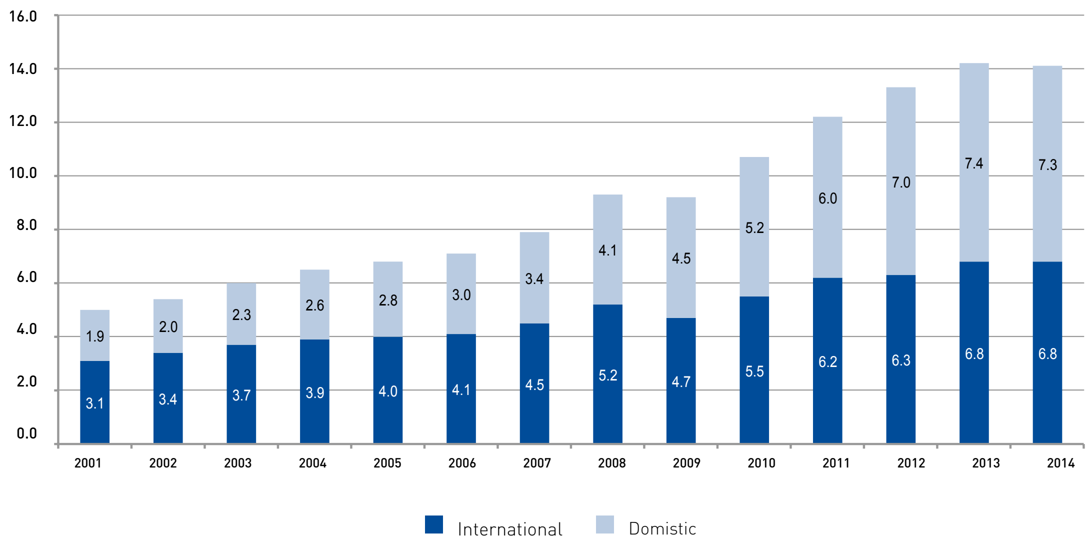
The most relevant laws and regulations regarding FTZ and IE are:

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 Minster 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. [35]

Indonesia's Container Volume 2001 - 2014



Source: Drewry, Maritime Advisors, Market briefing:
Indonesia's Master Plan for Ports, Shipping & Logistic, 2015

Indonesia's trade grew constantly over the last decade and as the third fastest growing G20 economy in 2014 the long-term expectations are promising too. In 2014, however, Indonesia's economy has faced the slowest growth pace in five years (~5%), mainly caused by sluggish exports (-8%) and weak investment growth. Among other things, the political year 2014

35 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).

(legislative and presidential elections) appeared to be a significant reason why the market was concerned about political instability and hence investment realization has declined.[36]

Following recent neglect of the maritime sector, the new administration has pledged to foster its development and to adjust to future demands. In line with the ASEAN Connectivity Master Plan, upgrading infrastructure and enhancing inter-island connectivity are viewed as essential to efforts to foster regional economic growth. In this regards, 14 ports[37] have been designated as main ports within the trans-ASEAN transport network.[38] As Indonesia's biggest port, Jakarta's Tanjung Priok handles over two-thirds of Indonesia's international trade. The container traffic is estimated to increase by over 160% by the end of 2015, when the extension of the terminals is supposed to be finish in order to cope with the huge container turn-over everyday. The modernization of one of ASEAN's biggest ports will be crucial towards overcoming the logistical bottleneck caused by rising trade inflows and will have a significant impact on Indonesia's future trade pattern. The dwell time, a measure of the time required to unload shipping containers and move them out of port increased from 4.8 days in 2010 to 6.4 in 2013. Not surprisingly, this results in high logistics costs for businesses, which are then passed on to consumers. In 2014 the Indonesia Port Corporation signed an agreement with the World Bank to receive strategic support and advisory services for the government's connectivity agenda.[39]

The EIBN Sector Report Maritime (2015) 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:

Presidential Decree No. 78/2005 about the Management of Outermost Small Islands

Law No. 17/2008 about the Cabotage Principle on Shipping (Shipping Act)

Government Regulation No. 61/2009 about Port Affairs

Government Regulation No. 21/2010 about Maritime Environment Protection

Government Regulation No. 22/2011 about Offshore Oil and Gas Industry (exemption of cabotage principle)

Government Regulation No PM 13/2012 about Vessel Registration

Presidential Decree No. 180/2014 about Tourism

36 Indonesia Investment, Trade Balance Indonesia: Import and Export Fall in January, 2015.
37 To gain an overview of Indonesian ports refer to: http://www.worldportsource.com/ports/IDN.php.
38 EIBN Sector Report, Maritime, 2015, p.5.
39 The World Bank News, Moving Cargo Faster in Indonesia's Main Sea Port, (Feb. 19 2014).

CONCLUSION

4. 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.

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 out 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 the next 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 as 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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Email: penghubung_kepri@yahoo.com
Website: http://www.penghubungkepri.org/index.php/en/

Batam Indonesia Free Zone Authority
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Fax: +62 778 462240, 462259
Website: http://www.bpbatam.go.id/eng/index.jsp

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Website: http://www.hki-industrialestate.com/

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ABBREVIATIONS

AEC	ASEAN Economic Community
AFTA	ASEAN Free Trade Agreement
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of the South-East Asian Nations
BBK	Batam – Bintan – Karimun Free Trade Zones
BIFZA	Batam Indonesia Free Trade Zone Authority
BKP	Free Trade Zone Executing Agency (*Badan Pengusahaan Kawasan*)
BKPM	Indonesian Investment Coordinating Board (*Badan Koordinasi Penanaman Modal*)
BPOM	National Agency of Food and Drug Control (*Badan Pengawa Obat dan Makanan*)
BRIC	Brazil, Russia, India, and China
CEPA	Comprehensive Economic Partnership Agreement
DNI	Negative Investment List (*Daftar Negatif Investasi*)
EIBN	EU-Indonesia Business Network
EPZ	Export Processing Zone
EU	European Union
F&B	Food and Beverage
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTZ	Free Trade Zone (*Kasawan Perdagangan Bebas*)
FZ	Free Zone
G20	The Group of Twenty, International Forum of the World's 20 Leading Industrialised and Emerging Economies
GDP	Gross Domestic Product
GOI	Government of Indonesia
GSP	General System of Preferences
HKI	Industrial Park Association (*Himpunan Kawasan Industri*)
ICT	Information and Communication Technology
IDR	Indonesian Rupiah
IE	Industrial Estate
LCGC	Low Cost Green Car
MSW	Municipal Solid Waste
MP3EI	Masterplan for Acceleration and Expansion of Indonesia's Economic Development (*Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia*)
MRO	Maintenance, Repair and Overhaul

PKJ	Taxable Enterprise (*Pengusaha Kena Paja*)
PLN	State-owned Electricity Company (*Perusahaan Listrik Negara*)
PPP	Public-Private-Partnership
PPSP	Acceleration of Urban Sanitation Development (*Program Percepatan Pembangunan Sanitasi Permukiman*)
RUPTL	Electricity and Power Supply Business Plan (*Rencana Usaha Penyediaan Tenaga Listrik*)
SEZ	Special Economic Zone
SME	Small and Medium-sized Enterprises
SOE	State Owned Enterprise
SSK	City Sanitation Strategies (*Strategi Sanitasi Kota*)
UNIDO	United Nation Industrial Development Organization
US	United States (of America)
UTP	Transportation Ministry's Technical Management Unit
VAT	Value Added Tax
WCO	World Customs Organization
WIPO	World Intellectual Property Organization
WtE	Waste-to-Energy
WTO	World Trade Organization

ABOUT EIBN

The EIBN is a partnership project between five European bilateral chambers of commerce in Indonesia (BritCham, EKONID, EuroCham, IFCCI, INA) 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 towards companies from all EU28 member states – particularly SMEs – and support them in their endeavor to explore the full market potential in Indonesia. The project was initiated and is co-funded by the EU.

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