ENTERPRISE SINGAPORE
INSIGHTS
Vol. 30_SEP 2017 (Updated: APR 2018)

Going East – Indonesia Beyond Jakarta
Opportunities in Central and East Indonesia

Indonesia - Southeast Asia's largest economy - is often the focal point for investors considering business opportunities in emerging markets. Since President Jokowi came into power, he has instituted a series of reforms to improve the country's investment environment. His efforts have yielded results – Indonesia climbed 15 ranks from #106 to #91 on the World Bank's Doing Business report in 2017. However, to fully uncover the business potential of the Indonesian market, we need to appreciate its heterogeneity and the diverse opportunities it presents.

Singapore companies should adopt a long-term view of Indonesia and consider venturing into Central and East Indonesia, which have much untapped potential and are less saturated than Jakarta and West Java. In this paper, we recommend focusing on the Resources, Infrastructure and Manufacturing (R.I.M.) sectors in this region. We examine the corresponding growth factors and challenges, and offer strategies for capturing opportunities in these sectors.

By **Gareth Tan & Ong Shieh Yuan**
Southeast Asia
enquiry@enterprisesg.gov.sg

Enterprise Singapore

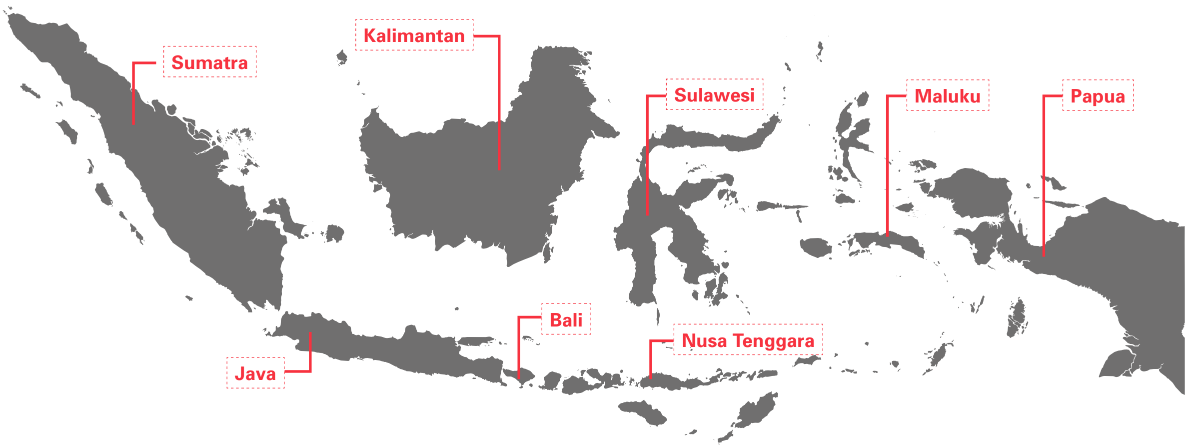
Contents

Disclaimer
While every effort is made to ensure that the information in this document is accurate, the information is provided by Enterprise Singapore to you without any representation or warranty. Any reliance on the information in this document is at your own risk. Enterprise Singapore does not accept any liability for any errors, omissions or misleading information. Enterprise Singapore and its employees shall not be held responsible for any consequence arising from your reliance on any information provided by us. You are advised to consult your own professional advisors.

Overview of **Central and East Indonesia**

a. Defining Central and East Indonesia*

Figure 1: Map depicting West, Central and East Indonesia regions



- West Indonesia: Sumatra, Banten, West Java, DKI Jakarta
- Central Indonesia: Central Java, DI Yogyakarta, East Java, Bali
- East Indonesia: Kalimantan, Sulawesi, Nusa Tenggara, Maluku, Papua

* There is no universally accepted definition of Central and East Indonesia. This classification is for the purpose of analysis on opportunities that are east of the more developed regions of Jakarta and West Java.

1 Clickable map of Indonesia, http://indahnesia.com/indonesia/indonesia/php, Discover Indonesia Online, 2016

b. Why Central and East Indonesia?

i. High economic growth rate

With a higher economic growth rate compared to the more developed regions of Jakarta and West Java, Central and East Indonesia are catching the attention of investors. Some of the fastest growing provinces are: South Sulawesi (7.86%), Central Kalimantan (6.89%), and Bali (6.61%) with their Compound Annual Growth Rate (CAGR) growth rates from 2011 to 2015 above that of the national average (5.64%).[2] East Java province has also become the second largest contributor to the Indonesian economy after the DKI Jakarta municipality.

Indonesia's eastern outer islands are particularly resource-rich relative to their western counterparts. Within Indonesia, Sulawesi has the highest concentration of nickel, Kalimantan of bauxite, and Nusa Tenggara and Papua of gold. The Sulawesi, Maluku and Papua regions are part of the coral triangle and hence also boast huge resources of seafood compared to other western parts of Indonesia. (See Annex A summary)

The higher economic growth rate has in turn drawn foreign and domestic investments, notably in Central Java, East Java, Kalimantan, Sulawesi, Bali and Nusa Tenggara. The Jokowi administration's focus on expanding connectivity to these underdeveloped regions will likely fuel this uptrend.

Table 2: FDI and DDI growth per region[3]

Region	FDI (in billion USD)		Change in FDI (%)	DDI (in trillion IDR)		Change in DDI (%)
	2011	2015		2011	2015	
Sumatra	2.1	3.7	76.2	16.3	37.8	131.9
Jakarta	4.8	3.6	-25.0	9.3	15.5	66.7
Banten	2.2	2.5	13.6	4.3	10.7	148.8
West Java	3.8	5.7	50.0	11.2	26.3	134.8
Central Java	0.18	0.85	372.2	2.7	15.4	470.4
Yogyakarta	0.0024	0.09	36.5	1.6	0.36	-77.5
East Java	1.3	2.6	100.0	9.7	35.5	266.0
Kalimantan	1.92	5.8	202.1	13.4	20.0	49.3
Sulawesi	0.70	1.55	121.4	7.2	13.6	88.9
Bali	0.48	0.49	2.1	0.31	1.2	287.1
Nusa Tenggara	0.47	0.77	63.9	0.04	0.35	775.0

2 Badan Pusat Statistik (BPS), 2015
3 Papua and Maluku regions are excluded from this analysis. Statistics for FDI and DDI, Badan Koordinasi Penanaman Modal (BPKM), 2015

ii. Government push to develop East Indonesia

Significant developmental disparities still exist between West Indonesia and Central and East Indonesia, particularly in economy size and infrastructural development. Most notably, Jakarta, Banten and West Java contributed 33.6% of GDP despite only having 2.4% of Indonesia's land mass.

Table 3: Contribution to GDP by region[4]

<table>
<tr><th rowspan="2">Region</th><th colspan="4">Contribution to GDP</th></tr>
<tr><th colspan="2">2011</th><th colspan="2">2015</th></tr>
<tr><td>Sumatra</td><td>22.9%</td><td rowspan="4">55.5%</td><td>21.7%</td><td rowspan="4">55.3%</td></tr>
<tr><td>Jakarta</td><td>15.6%</td><td>16.1%</td></tr>
<tr><td>Banten</td><td>3.9%</td><td>4.1%</td></tr>
<tr><td>West Java</td><td>13.1%</td><td>13.4%</td></tr>
<tr><td>Central Java</td><td>8.9%</td><td rowspan="5">41.1%</td><td>9.9%</td><td rowspan="5">42.2%</td></tr>
<tr><td>East Java</td><td>14.3%</td><td>14.7%</td></tr>
<tr><td>Kalimantan</td><td>9.9%</td><td>8.8%</td></tr>
<tr><td>Sulawesi</td><td>5.2%</td><td>5.8%</td></tr>
<tr><td>Bali & Nusa Tenggara</td><td>2.8%</td><td>3.0%</td></tr>
</table>

Inequality was a key issue in the run-up to the Indonesian presidential elections in July 2014, with both presidential candidates making public statements about strategies to reduce inequality. 88% of the surveyed public said it was "very urgent" or "quite urgent" for the Government to address inequality.[5] Hence, one of the nine priorities in Jokowi's National Medium Term Development Plan (Nawacita) 2015 – 2019 was to achieve economic equality and develop Indonesia's rural areas. The government has also introduced preferential policies for businesses outside of Java, or in less industrially developed regions. Examples include the set-up of eight Special Economic Zones (SEZs), of which seven are outside of Java and five are in East Indonesia.[6] The East Indonesia Development Fund or PT Investasi Indonesia Trust was also formed in 2015 by the Indonesia Chamber of Commerce (KADIN) to solicit funding and investments to accelerate development in East Indonesia, especially in the energy, infrastructure, food, maritime and fisheries and finance sectors.[7]

4 BPS data on GDP based on province, 2015
5 Lembaga Survei Indonesia, World Bank, 2014
6 Utilising Special Economic Zones, Forbes Indonesia, April 2016
7 KADIN to help promote East Indonesia to investors, The Jakarta Post, May 2015

c. Surabaya as the gateway to East Indonesia

Surabaya is often touted as the gateway to East Indonesia, due to its numerous air and sea linkages to this region.

The maps below show the frequency of flights and container vessel voyages to the various Central and East Indonesia regions. Surabaya's good connectivity makes it a good landing point for companies seeking to expand beyond the Greater Jakarta region.

Figure 4: Map of air connectivity and frequency of flights from Surabaya to Central and East Indonesia regions

Destination Cities with High Flight Frequency from Surabaya **Above 48 flights per week**

Destination Cities with Medium Flight Frequency from Surabaya **Between 10 - 48 flights per week**

Destination Cities with Lower Flight Frequency from Surabaya **Below 10 flights per week**

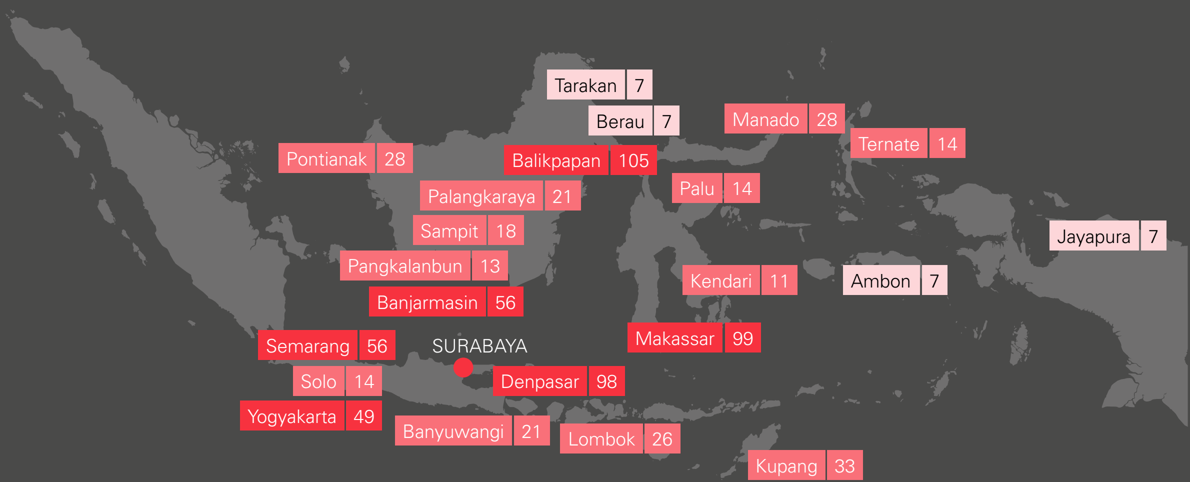
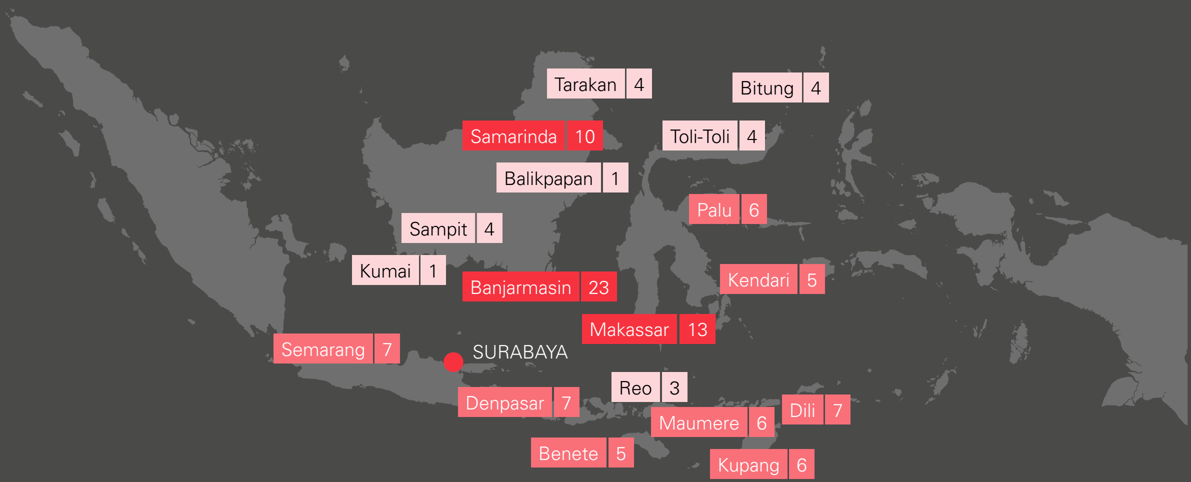


Figure 5: Map of sea connectivity and frequency of container vessel voyages from Surabaya to Central and East Indonesia regions

Destination Cities with High Voyage Frequency from Surabaya **10 and above voyages per month**

Destination Cities with Medium Voyage Frequency from Surabaya **5 - 9 voyages per month**

Destination Cities with Lower Voyage Frequency from Surabaya **Below 5 voyages per month**



Regional focus:
Selected provinces, cities and regencies

The table below summarises the sectoral opportunities in selected provinces of Central and East Indonesia.

Region	Key Figures[8]	Economic Features	Sectors for Consideration	Notable recent projects
Central Java (including DI Yogyakarta)	**Population:** 37.4 million **Key Cities / Regencies:** Semarang, Kendal, Solo, Yogyakarta (Special Region) **Capital:** Semarang **GDP:** USD$60.6 billion **GDP Growth:** 5.4% **CAGR 2010 – 2015:** 5.3%	• Highly fertile agriculture land due to high concentration of volcanic ash and limestone • Increasingly popular with manufacturers, particularly labour-intensive industries, due to lower labour costs • Key sectors include agriculture, manufacturing (processing), retail and motorcycle repair	• Labour-intensive manufacturing • Urban solutions	• Kendal Industrial Park (KIP), a 2,700-ha integrated industrial park by Sembcorp and Jababeka • First Public Private Partnership (PPP) project – 2,000-MW Batang coal-fired power plant by Adaro Energy (Japan-invested) • Gresik-Semarang gas pipeline by Pertagas
East Java	**Population:** 38.8 million **Key Cities / Regencies:** Surabaya, Gresik, Sidoarjo **Capital:** Surabaya **GDP:** USD$106.4 billion **GDP Growth:** 5.4% **CAGR 2010 – 2015:** 6.0%	• Second-most populous region, and second largest regional economy • Seen as the gateway to other eastern regions as its infrastructure is relatively well-developed • Natural resource / commodity processing hub for East Indonesia	• Urban solutions • Logistics infrastructure • Agricultural and seafood resources processing	• Integrated Industrial and Port Estate (JIIPE) in Gresik by AKR Corporindo and Pelindo III • Jakarta-Surabaya High Speed Rail • Surabaya Tram, Light Rail and Public Carparks

8 GDP and GDP Growth Figures, Badan Pusat Statistik (BPS), 2015

Regional focus:
Selected provinces, cities and regencies

Region	Key Figures[8]	Economic Features	Sectors for Consideration	Notable recent projects
Kalimantan	**Population:** 15.3 million **Key Cities / Regencies:** Balikpapan, Banjarmasin, Pontianak **GDP:** USD$59.4 billion **GDP Growth:** 1.3% **CAGR 2010 – 2015:** 4.1%	• Projected to have highest urbanisation and population growth rates in the country • Main producer of palm oil, timber and coal in the country • East Kalimantan is among Indonesia's most established mining areas	• Energy infrastructure • Resources trading and processing • Urban solutions	• Pertamina-Total-Inpex Mahakam block at offshore East Kalimantan • Trans-Kalimantan railway • Balikpapan-Samarinda Toll Road • Balikpapan Coastal Road
Sulawesi	**Population:** 18.7 million **Key Cities / Regencies:** Makassar, Manado, Bitung **GDP:** USD$39.4 billion **GDP Growth:** 8.2%z **CAGR 2010 – 2015:** 5.3%	• Main producer and exporter of coconut, cocoa, rice and other agricultural products • Largest deposits of nickel in Indonesia • Potential for run-of-river hydropower generation	• Connectivity and logistics infrastructure • Renewable energy • Resource trading and processing • Urban solutions	• New Makassar port • Trans-Sulawesi railway • Centre Point of Indonesia • Makassar Smart City
Bali & Nusa Tenggara	**Population:** 14.1 million **Key Cities / Regencies:** Bali, Lombok **GDP:** USD$20.6 billion **GDP Growth:** 10.3% **CAGR 2010 – 2015:** 5.8%	• Key sectors include tourism, fishery, agriculture and animal husbandry • Large disparity in living standards; Bali is one of the richest regions while East Nusa Tenggara is one of the poorest regions of Indonesia	• Connectivity and logistics infrastructure • Renewable energy • Tourism and hospitality infrastructure	• Second Bali International Airport in Buleleng, North Bali • Bali Benoa International Cruise Terminal • Mandalika Special Economic Zone in Lombok

Sectoral opportunities **and strategies going east**

We recommend Singapore companies to focus on the natural **R**esources, **I**nfrastructure and **M**anufacturing (R.I.M.) sectors when "going east" to pursue opportunities:

- // Natural **R**esources: Processing, trading and engineering services in oil & gas, mining, agriculture, and marine sectors to capture value from this resource-rich region
- // **I**nfrastructure development: To fill gaps in connectivity, logistics, utilities, infrastructure and tourism development in Central and East Indonesia
- // **M**anufacturing: Moving eastwards of Jakarta/West Java due to cheaper costs of land, labour and proximity to raw materials

a. Natural Resources and processing

i. Growth drivers and opportunities

// **Government push for value-add of commodities**
As an archipelago rich in natural resources, Indonesia has enjoyed several years of commodity price upcycles, but has to now look at transforming itself in the face of tumbling prices and slumping exports. The Indonesian government has realised there is a need to diversify Indonesia's economy through encouraging manufacturing or processing of their natural resources to generate higher economic value-add and create more jobs for its burgeoning population.

Consequently, there have been regulatory changes across the agricultural commodities and metal mining sectors to increase the value that Indonesia gets from exporting its resources. The mineral ore export ban enforced in 2014[9] is a demonstration of the Indonesia administration's attempt to push for more returns on mining resources by getting resource companies to invest in mineral processing facilities.

Sectors such as biomass pellet and wood chips manufacturing that were previously limited to joint-venture with local companies have since been opened to 100% foreign investment.[10] At the start of 2016, the government also implemented the B20 Biodiesel Program which mandates that at least 20% of biodiesel must be blended in diesel. This encourages biodiesel refining and hence decreases reliance on CPO exports.[11] (More examples in Annex B)

Under government regulation No. 18/2015, the Ministry of Finance will provide tax concessions for some sectors in designated regions in East Indonesia. These sectors are: primary metals (except iron milling) and manufacturing in Kalimantan, Sulawesi, Maluku and Papua, shrimp processing and preservation in Sulawesi, Maluku and Papua, and coffee and tea processing in parts of Sulawesi,[12] Bali, East Nusa Tenggara, and Papua.

// **Large potential to increase productivity**
Productivity and per-hectare yield for many agricultural commodities in Indonesia are low as sectors such as coffee, cacao and rubber are dominated by small landholders with limited economies of scale and investment capacity. To help boost the productivity of local industries, the government has kept upstream processing sectors such as fishery processing, soy sauce, condensed milk and essential oils production open to 100% foreign investment as long as investors develop partnerships with Micro SMEs, for e.g. contracts for supply, packaging, distribution, etc.

9 According to the 2009 Mining Law, there is a blanket ban on the export of raw ores from Jan 2014 onwards.
10 Presidential regulation No.44/2016, a revision of the negative investment list signed off in May 2016.
11 Palm oil industry: Rising biodiesel consumption in Indonesia, Indonesia Investments, September 2016
12 Namely South, North and East Sulawesi

ii. Challenges

// **Uncertain domestic regulatory environment surrounding hard commodities sectors**
Restrictive legislation and uncertainty concerning the interpretation or enforcement of existing regulations regarding the exploitation of Indonesia's resources present challenges to investors. An example includes the 2009 Mining Law's ban on exports of mineral ores. Investors have witnessed multiple revisions of this regulation and seen the government's changing stance towards enforcing the regulation. This creates uncertainty for investors to evaluate and chart their next steps.

iii. Recommendations

// **Focus more on soft commodities as they have high growth potential but adopt conservative approach to hard commodities**
According to BMI Research forecasts, the mining and oil and gas sectors in Indonesia will stagnate, and growth in the primary sector will be driven by agribusiness.[13] Key opportunities lie in the downstream value-added sectors, where foreign investor involvement is less regulated. Nonetheless, Singapore companies are advised to partner with a local company as processing of palm oil, coconut oil, coffee beans, sugar cane and black and green tea are capped at 95% foreign shareholding and have a requirement that at least 20% of raw materials should come from plasma plantations.[14] Timely distribution is crucial with regard to seafood, so this presents opportunities for firms providing temperature-controlled storage and transportation of fresh and frozen goods. There is also potential to support the construction of supporting infrastructure at seafood production centres, such as fishery ports and cold storage facilities.

// **Consider domestic market beyond just processing for export**
Given the growing middle class, as well as the country's infrastructural demands to support rapid urbanisation and industrialisation, Indonesia is now a nexus for both production and consumption. For example, there has been an increase in spending on beverages and packaged food between 2013 to 2015 across all income levels.[15] Singapore businesses could therefore consider Indonesia as an end market besides being a resource base for processing for export and build their in-market distribution channels and brand equity in order to capture the burgeoning local consumer market. An overall larger customer base will also allow them to achieve lower costs of production.

---

13 Furthermore, according to BPS, Indonesia's fishing industry grew 8.37% y-o-y in the third quarter of 2015, far above the country's overall economic growth of 4.73%. In 2013, the Global Aquaculture Alliance, a certification NGO, projected average annual growth rates of 10.7% in Indonesia's shrimp cultivation from 2012 to 2015, giving Indonesia the potential to become the world's largest shrimp exporter.
14 Plasma plantations refer to plantations which provide social and economic assistance to surrounding villagers thereby increasing the local community's income and welfare. This is an initiative from the Indonesia government.
15 Deloitte Consumer Insights: Capturing Indonesia' Latest Markets, Deloitte, May 2015

b. Infrastructure development

i. Growth drivers and opportunities

// Lack of infrastructure in the region

One of the key factors contributing to inequality of development between West and East Indonesia is the lack of infrastructure. This lack of infrastructure, such as access to clean water, electricity, telecommunication, proper roads and transportation, has discouraged business investments and hampered East Indonesia from realising its economic potential.

- Demand for connectivity and logistics infrastructure

Connectivity

The high economic growth rate achieved in regions such as Sulawesi (8.6%), Bali and Nusa Tenggara (8.9%), and Papua and Maluku (10.2%) was driven by the increase in flight connections. Building up land connectivity through major toll road constructions and maritime connectivity through port upgrades and new port construction in these regions will drive logistics costs down,[16] boost trade and ultimately stimulate the growth of East Indonesia's economy.

Cold storage

Cold chain logistics development is still nascent and not yet able to adequately serve the growing consumer demand in Indonesia. This demand is even more pressing today given the need to upgrade the fishery industry with operations centred in East Indonesia. The Ministry of Marine Affairs and Fisheries has clamped down on illegal foreign fishing vessels in Indonesian waters, resulting in surplus of seafood stock that the local fishery industry is unable to export without proper cold storage and handling.[17]

16 Lowering the high logistics costs at around 24% of GDP (higher than its ASEAN peers – Thailand 20%, Malaysia 13%) is a top concern for the administration.

17 Indonesia sinks 23 foreign fishing boats, Channel News Asia, April 2016

- **Demand for power infrastructure**
  Electrification ratios in the provinces of East Indonesia are lower than the national average. In 2014, it was 68.1% in West Nusa Tenggara, 58.9% in East Nusa Tenggara, and only 43.5% in Papua compared to the national average of 84.3%. Most of the East Indonesian provinces rely on diesel-fired generators that are inefficient, pollutive and expensive. Even in places where there is connection to the grid, power supply shortages still lead to frequent power outages. Hence, many parts will require distributed power generation due to the lack of access to the electricity grid.

  Renewable energy
  Indonesia's renewable energy sources are considerable. The country is endowed with significant potential for hydropower (75,000 MW), micro/mini hydropower (1,013 MW), solar (4.80 kWh/m2/day), biomass (32,654 MW), and wind (3-6 m/s), and holds 40% of the world's geothermal reserves (28,000 MW).[18] The Ministry of Energy and Mineral Resources (ESDM) recognises the long-term need for renewable energy in the power mix. The recently released National Power Development Plan (RUPTL) focuses on increasing the share of renewables from the current 11% to 23% by 2025. Renewable energy such as solar power and hydropower will play a huge role in the development of electricity infrastructure in the remote regions of East Indonesia.

  Small scale gas-fired power plants
  In early 2015, the National Electricity Company (PLN) launched a pre-qualification for liquefied natural gas (LNG) supply of 230 million standard cubic feet per day (mmscfd), comprising transportation and infrastructure, particularly in storage and regasification, to support the development of small- and medium-sized gas power plants with a combined capacity of 2,800MW in Kalimantan, Sulawesi, and Nusa Tenggara. This presents opportunities for Singapore engineering services companies serving the oil and gas sector, or even investors for gas infrastructure.

18 Presentation to International Energy Agency (IEA) on New and Renewable Energy and Energy Conservation Sector Strategy, Energi Baru Terbarukan dan Konservasi Energi (EBTKE), Kemeterian Energi dan Sumber Daya Mineral (ESDM), March 2014

- **Encouragement of private sector participation**
  The government targets around US$450 billion or around 50% of Indonesia's GDP for infrastructure investment during President Jokowi's 2015-2019 presidential term. The central government, local governments and SOEs together are expected to finance about 70% of the total investment. The remaining will come from the private sector through PPPs.[19] This provides huge opportunities for foreign investors to participate in the country's infrastructure development, be it through partnering and supporting the SOEs or joining PPP tenders with support from a local partner. Furthermore, in the recently released Electricity Supply Business Plan (RUPTL) 2016-2025 by ESDM, at least 57% of power projects will be tendered out for private sector participation via the Independent Power Producer (IPP) scheme.[20]

  Restrictions on foreign ownership have also eased, especially in the connectivity, logistics and energy sectors. For example, the foreign ownership limit has been increased from 0 to 49% for land transport businesses, 95% to 100% for toll road operations, 33% to 67% for warehousing, 33% to 100% for cold storage, and 95% to 100% for power plants above 10MW. Indonesia also has less restrictive foreign ownership laws in the renewable energy sector compared to its regional peers.

Percent of foreign ownership permitted in greenfield FDI and mergers and acquisitions

	Biomass	Hydro	Solar	Wind
Indonesia	**95**	**95**	**95**	**95**
Malaysia	30	30	30	30
Philippines	100	100	40	40
Thailand	49	49	49	49

Source:
Golub et al. (2011) adapted from World Bank Investing Across Borders Database, 2010

19 Infrastructure development in Indonesia: $450 billion required, Indonesia Investments, May 2016
20 PwC Indonesia: Energy, Utilities & Mining Newsflash – Release of long-awaited 2016 – 2015 RUPTL – a positive sign for IPP investors, PricewaterCooper (PwC), July 2016

ii. Challenges

// **Delayed implementation of government projects**
Huge government infrastructure projects have long gestation periods and in Indonesia, can face delays due to a mixture of factors – land acquisition challenges, bureaucratic processes at central and regional government levels, and complexity of coordination amongst ministries. There might also be misalignment of regulations issued at the national, provincial and local levels[21] which has to be resolved, resulting in delays in implementing projects.

// **Need to spend considerable time to find information and useful contacts**
Singapore companies used to the transactional and efficient ways of doing business in Singapore will need to adjust their expectations when entering the Indonesian market. Firstly, information on projects is less readily available, and businesses will need to rely on contacts to get updates about projects. Secondly, there are many infrastructure projects which indicate preference for local content or local entity requirements in the tender process. This means that Singapore investors will have to dedicate some time and resources to identifying and cultivating suitable and dependable local partners.

iii. Recommendations

// **Accumulate and showcase relevant track records**
Having a track record and project references in Indonesia itself, or in similar emerging markets in Asia, will be helpful for Singapore companies to establish themselves in the market. This demonstrates their ability to adapt and tackle challenges pertinent to Indonesia or comparable developing market environments, and can boost the confidence of private sector clients even if such a requirement is not already factored in tender specifications. Singapore companies who do not have investment experience in Indonesia can start out by providing services so as to build up relationships in the relevant industries.

---

21 Solving the regulatory puzzle, http://forbesindonesia.com/berita-1182-solving-the-regulatory-puzzle.html, Forbes Indonesia, Volume 7 Issue 9, September 2016

// **Focus on private sector / Business-to-Business (B2B) projects**
Due to the long gestation period for certain government infrastructure projects, Singapore companies can consider focusing on projects from the private sector in the shorter term while keeping an eye on the development of longer term government infrastructure projects. There are opportunities for logistics, distributed energy and utilities for some of the industrial parks and townships that Indonesian conglomerates are developing. These can be directly negotiated deals or tenders; they are likely to have a shorter procurement cycle compared to government projects. Moreover, such projects are smaller in scale and more palatable to SMEs, and serve as a good way to build a track record for larger projects later on. For companies keen on participating in Indonesia's 35,000MW electrification programme, they can consider focusing on the renewable energy space, where direct award of the power purchase agreement (PPA) by PLN is possible.

// **Partner local private sector companies or State-Owned Enterprises (SOEs) for sectors facing foreign ownership and investment restrictions**
It should be noted that certain infrastructure sectors have limits to foreign shareholding, hence local partners are necessary. Small-scale power plants (1 – 10 MW) are opened up to 49% foreign ownership and power plants above 10MW are opened up to 95% foreign ownership. Foreign investment in seaport infrastructure and warehousing is also limited to 49% and 67% respectively.

Local partners or local suppliers are also often a prerequisite for government tenders. Strong local private sector or SOE partners will be a boon for navigating the bureaucracy and obtaining local permits and licenses. With the recent trend of SOEs being directly appointed to implement key government infrastructure projects, Singapore companies may want to consider working with SOEs to gain access to such projects.[22] Due to the fragmented nature of the Indonesian market, it would be helpful for Singapore companies to note that there might be local players, whether private or state-owned, who are more influential in certain regions than others.

---

22 State-owned construction companies, such as Wijaya Karya, Waskita Karya, and PT Pembangunan Perumahan are examples of SOEs in the construction sector who participate in many infrastructure tenders across the country for a variety of sectors, ranging from toll roads, seaport, airport, power plants to water dams and treatment plants.

c. Manufacturing

i. Growth drivers and opportunities

// Low cost of production

Java island remains the nucleus of most manufacturing activity due to the lack of supporting infrastructure and trained labour in the outer islands. As the Greater Jakarta region becomes more crowded, costs of production such as land, labour and electricity costs have been steadily rising.[23] Regions in Central and East Java are increasingly seen as favourable alternatives to investors as they offer lower land, labour and electricity costs. In 2016, the minimum wage in Greater Jakarta's industrial districts ranged from Rp 2.59 mil – Rp 2.95 mil, while the equivalent figure in the Greater Semarang and Surabaya area were Rp 1.16 mil - Rp 1.68 mil and Rp 1.26 mil – Rp 2.7 mil respectively.

Large local conglomerates and MNCs have expanded or relocated their manufacturing operations to Central and East Java. Examples include DIC Corporation (printing inks and packaging), HB Fuller Co (adhesives), Clariant (chemicals), Kimia Farma (pharmaceuticals), and Pan Brothers (garment). This trend is especially prominent for companies in the labour-intensive sector since they can save up to 50% of their labour costs by shifting to Central Java.[24] Most recently in mid-2016, there were indications of potential interest from South Korean and Taiwanese investors to set up garment and shoe factories in Central Java too.[25]

// Preferential incentives in East Indonesia

Under a proposed revision to Government Regulation 24/2009,[26] industrial zones across Indonesia will be divided in four categories based on their degree of development. Setting up businesses in the less developed zones, especially those in East Indonesia, will qualify for greater incentives, such as tax holidays and tax allowances at the national level, as well as relief from some regional taxes and levies.

23 In the Jabobeka area in Greater Jakarta, the selling price of industrial estate almost quadrupled from an average Rp 730,315 per sqm in 2010 to Rp 2,741,840 in 2013. Prices in the Banten estate also more than doubled, Global Business Guide (GBG) Indonesia

24 This translates to a $1.2 million cost saving per year for a factory with 1,000 workers when comparing Bandung in West Java to Kendal in Central Java. Calculated from monthly wage of Rp 2,626,940 (Bandung) and Rp 1,639,600 (Kendal), Minimum Wages in Indonesia, Wage Indicator.org

25 South Korean shoemaker plans $150m investment in Central Java, Jakarta Post, July 2016

26 Industrial estates get a boost, Jakarta Post, November 2015

ii. Challenges

// **Restrictions on foreign shareholding**
There are certain sectors for which the government has imposed limits to foreign investment. This is to encourage foreign investors to work with local companies to benefit the development of local industries. According to Presidential Regulation No. 44/2016 of the Negative Investment List, pharmaceuticals manufacturing, including vitamins and supplements, is restricted at 85% foreign shareholding.[27] Certain sectors are reserved for Micro, Small & Medium Enterprise (MSMEs)[28] in Indonesia, and are only open to foreign investment if it is demonstrated that the process is substantially different and unable to be undertaken by the local industry, such as dyeing and printing of fabric.

// **Possible logistical limitations in the region**
If raw materials need to be imported, investors need to take into account the schedule of international shipping lines serving Tanjung Emas and Tanjung Perak, the main ports of Central and East Java provinces respectively. If ships only dock at Tanjung Priok port in Jakarta, extra arrangements have to be made and higher costs will be incurred for the raw materials to be shipped or trucked to Central and East Java. Such considerations should also be taken account for the distribution of end products, whether for domestic or export markets.

---

27 Although it should be noted that manufacturing of active pharmaceutical ingredient (API) products has been opened from 85% to 100%. Other pertinent sectors are highlighted in Annex A.
28 MSMEs in Indonesia are defined as businesses with annual revenue of less than IDR 10 billion (~S$ 1 million).
29 For e.g., businesses with minimum investment value of Rp 100 billion (US$7.33M) and/or plan to employ more than 1,000 workers can have their preliminary permits processed at the BKPM one-stop integrated service centre (PTSP) within 3 hours.
30 3rd economic stimulus package (7 Oct 2015) – provides cuts for fuel, electricity and gas prices and allows labour-intensive businesses to defer 60% of their electricity bill to next year 7th economic stimulus package (4 Dec 2015) – waives income taxes for workers in labour-intensive industries earning less than IDR 50 million per year (~US$ 3,700) for period of 2 years

iii. Recommendations

// **Focus on labour-intensive or high local content production**

Foreign Direct Investment (FDI) in manufacturing of products that are high in value, export-oriented, labour-intensive and require high proportions of local content is generally assessed more favourably and better supported by the Indonesian government.[29] Labour-intensive sectors such as garment, textile, furniture, and food & beverage manufacturing can best capitalise on the lower cost of production in regions like Central Java. The government has also demonstrated support for labour-intensive industries by providing cuts in fuel, gas, electricity prices and workers' income taxes as per the 3rd and 7th economic stimulus packages announced by President Jokowi.[30]

Manufacturing operations that source raw materials locally will also bypass inconveniences associated with importation. This is especially so for businesses such as coffee production, meat processing, garment manufacturing and pharmaceuticals. Singapore companies looking to penetrate the Indonesian consumer market in these sectors may consider moving their production to Indonesia, especially this region, to capitalise on the advantages mentioned above, and also overcome the hurdles regarding import of their goods.

// **Set up in established industrial parks**

Companies new to Indonesia or new to Central and East Java might want to consider setting up in established industrial parks where other foreign investors are present. While not all of these industrial parks are well-planned and sophisticated in terms of their amenities, most tend to at least be located near vital logistical nodes for ease of access.

Sembcorp Development and Jababeka Group's mega integrated industrial park project "Park by the Bay" - located in the Kendal regency of Central Java - could be a good landing point for Singapore companies relatively new to Indonesia. Since 2014, there have been Singapore business delegations led either by Enterprise Singapore or associations such as the Singapore Business Federation to visit the development. Other relatively more established parks include Candi Industrial Park and BSB Industrial Park in Semarang, Central Java, Surabaya Industrial Estate Rungkut (SIER), Maspion Industrial Estate (MIE), Java Integrated Industrial & Port Estate (JIIPE) and Ngoro Industrial Park (NIP) in Greater Surabaya regions of East Java.

General advice for doing **business in East Indonesia**

a. Take small and gradual steps

It is helpful for Singapore companies to have some experience in developing markets before their foray into these frontier markets of Indonesia so as to prepare themselves for the challenges of doing business in East Indonesia. Another way would be to start small in the market through the trading and provision of services first, so as to learn the ways of doing business before diving into investments.

b. Find local partners or tap the Indonesian community in Singapore

Navigating the market with a local partner is beneficial as they can help with understanding market norms, managing local labour and handling local authorities. The deep economic and social linkages between Singapore and Indonesia mean that Singapore companies can tap the network of Indonesian companies or associates already based in Singapore, or Singaporeans already working in Indonesia, to find a suitable partner for their venture into the market.

c. Leverage alternative "nodes"

Logistics connectivity is the foundation for economic activity to spread. In order to gain access to business opportunities in Central and East Indonesia, Singapore companies can leverage some of the connectivity hubs in the region. Surabaya[31], often recognised as the gateway to East Indonesia, can be a place to start for the abovementioned sectors of resources, infrastructure and manufacturing. Other nodes that companies can consider as a base for their East Indonesian operations include Semarang for labour-intensive manufacturing, Bali for tourism, Makassar for agricultural commodities sourcing. These cities are accessible via direct flights from Singapore.

31 Enterprise Singapore has established an Overseas Centre in Surabaya that covers Central and East Indonesian markets.

Conclusion

We encourage companies to take a long-term view when approaching Indonesia. With a market size of 250 million, growing middle class and young labour force, Indonesia is full of potential, possesses ambition and is on course to become the world's 7th largest economy by 2030. The key to uncovering Indonesia's full potential is to develop the markets in the rest of its vast archipelago.

With the slowdown of economies in developed nations, many businesses are turning their attention to emerging markets such as Southeast Asia. Singapore companies may find that regions in Central and East Indonesia are less saturated compared to west Indonesia. There are many opportunities to seize in the Resources, Infrastructure and Manufacturing (R.I.M.) sectors in these markets. Moreover, first-mover advantage and geographical proximity to Indonesia also stand Singapore firms in good stead compared to non-ASEAN competitors from China, India, Europe and the US. Building strategic connections and attaining "foot-in-door" milestones will enable Singapore businesses to capture greater market value in time to come.

This long-term view is crucial for businesses seeking sustainable growth. By putting time and effort in these developing markets of Central and East Indonesia, businesses will find themselves reaping rewards when the sleeping giant awakens.

ANNEX A

Summary of Indonesia's main concentrations of natural resources

Resource	Regions, in order of concentration	Remarks
Hard commodities		
Oil	Sumatra, the Java Sea, East Kalimantan and Natuna	Second-largest reserves in Asia, second only to China[32]
Gas	East Kalimantan, West Papua, South Sumatra, Sulawesi and Natuna	Largest reserves in Asia
Coal	East Kalimantan, South Kalimantan, South Sumatra	World's fourth largest producer and largest exporter[33]
Nickel	Sulawesi	World's top exporter before export ban in 2014
Copper	Papua, West Nusa Tenggara	Grasberg mine in Papua has the world's largest recoverable reserves
Bauxite	Sulawesi, Tangerang, East Kalimantan, West Kalimantan	World's second largest exporter before export ban in 2014[34]
Gold	Papua, West Nusa Tenggara, East Kalimantan, Central Kalimantan	Grasberg mine in Papua has the world's largest reserves[35]
Tin	Bangka Belitung	World's biggest exporter of the metal
Soft commodities		
Rice	Java, South Sumatra, South Sulawesi	World's third-largest producer of rice and rice is grown by 77% of all farmers in Indonesia[36]
Palm oil	Sumatra (70%), Kalimantan (30%)	Largest palm oil producer and exporter, accounts for more than half of the world's production
Rubber	South Sumatra, North Sumatra, Riau, Jambi, West Kalimantan	Second-largest rubber producing country, after Thailand
Cacao	Sulawesi (75%), North Sumatra, West Java, Papua, East Kalimantan	Third largest global producer[37]
Coffee	Sumatra, South Sulawesi	Fourth largest producer and exporter[38]
Seafood	Seafood is abundant in East Java, Sulawesi, Maluku, Nusa Tenggara and Papua. East Java accounts for roughly a third of shipments.	Third in the world in inland and marine catch, fourth in aquaculture output[39]

32 Indonesia Oil and Gas Guide 2016, PwC 2016
33 The coal sector in Indonesia, GBG Indonesia, 2014
34 Mineral Commodities Summaries, US Geological Service
35 Gold, Indonesia Investments
36 Rice Almanac 4th Edition, International Rice Research Institute, 2013
37 Indonesia Cocoa Bean: current situation, ndonesian Coca Farmer Association, Indonesia Cocoa Board (ICB)
38 Total production by all exporting countries, International Coffee Organisation, 2017
39 Indonesia's aquaculture and fisheries sector, GBG Indonesia

ANNEX B

Examples of regulations that promote processing of commodities:

Sector	Regulation[40]	Implications
Palm Oil	In 2015, a new policy imposed a US$50 per metric ton levy on CPO exports, and a US$30 per metric ton levy exports on processed palm oil products.	Palm oil refining capacity in Indonesia jumped to 45 million tons by end-2014, double the 21.3 million in 2012
Cocoa	Export tax on raw cocoa beans in 2010 (67/2010) amounting between 5-15% - to encourage more domestic fermenting industries.	Indonesia's grinding capacity has expanded from 250, 000 (2009) to 480 000 (2012)
Metal & Minerals	Blanket ban on the export of raw ore after Jan 2014. A last-minute regulation softened this ban and allowed exports of copper, manganese, zinc, lead, and iron ore concentrates until Jan 2017.- contingent on assurances by mining firms to refine their product in the future and subject to an escalating export tax.	Numerous smelter projects have been announced, but few have actually broken ground. Increased curbs on mineral exports has led to a dramatic dip in some mineral exports: Bauxite exports almost came to a complete standstill, plummeting from more than 55 million tonnes in 2013 to half a million the following year, according to estimates from the US Geological Survey

The government also announced income tax and VAT cuts[41] for investors in eight special economic zones (SEZs) located outside Java in the 6th economic stimulus package. Five of these SEZs are located in East Indonesia, and the table below illustrates the resource-based focus of each of these SEZs:[42]

SEZ	Region	Focus
Maloy Batuta Trans Kalimantan	East Kalimantan	Palm oil, logistics
Palu	Central Sulawesi	Agro-based industry e.g. cacao, rubber, seaweed, rattan, metal processing e.g. nickel, iron ore, gold, logistics
Bitung	North Sulawesi	Fisheries processing, coconut-based industrial and medicinal plants, logistics
Mandalika (Lombok)	West Nusa Tenggara	Tourism
Morotai	North Maluku	Tourism, fisheries processing, logistics

40 Indonesia's smelting plans – moving slowly, but moving, GBG Indonesia, 2016
41 Chief Economics Minister Darmin Nasution said investors can get income tax discounts of between 20 and 100 percent for a duration up to 25 years, Indonesia Investments
42 Bappenas, 2015

ENTERPRISE SINGAPORE

Enterprise Singapore, formerly International Enterprise Singapore and SPRING Singapore, is the government agency championing enterprise development. We work with committed companies to build capabilities, innovate and internationalise.

We also support the growth of Singapore as a hub for global trading and startups. As the national standards and accreditation body, we continue to build trust in Singapore's products and services through quality and standards.

Visit **www.enterprisesg.gov.sg** for more information.

Connect with us on

Our Offices in Southeast Asia

Bangkok
Enterprise Singapore
Unit 1702-1703
17th Floor Sathorn Square Office Tower
98 North Sathorn Road
Bangkok 10500
Thailand
T +66 2108 1270
F +66 2108 1272

Hanoi
Enterprise Singapore
Floor 21, Him Lam Street Business Centre
Capital Tower
109 Tran Hung Dao Street
Hanoi
Socialist Republic of Vietnam
T +84 4 3848 9151
F +84 4 3848 9150

Ho Chi Minh City
Enterprise Singapore
c/o Consulate-General of the Republic of Singapore – Ho Chi Minh City
Saigon Centre, 65 Le Loi Boulevard
8th Floor, Unit 1, 1st District
Ho Chi Minh City
Socialist Republic of Vietnam
T +84 8 3822 5173/74
F +84 8 3825 1600

Jakarta
Enterprise Singapore
c/o Embassy of the Republic of Singapore - Indonesia (Jakarta)
Block X/4, Kav No. 2, Jln HR. Rasuna Said
Kuningan, Jakarta 12950
Indonesia
T +62 21 522 9274
F +62 21 520 1488

Kuala Lumpur
Enterprise Singapore
Singapore Centre KL
Unit 6.3, Level 6
Menara Standard Chartered
30 Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia
T +603 2141 0046
F +603 2141 0951

Manila
Enterprise Singapore
c/o Embassy of the Republic of Singapore
505 Rizal Drive, Bonifacio Global City
1634 Taguig City
Metro Manila
Philippines
T +63 2 551 4856
F +63 2 551 4366

Surabaya
Enterprise Singapore
SPAZIO 7th floor, Unit 710
Graha Festival Kav. 3,
Jl. Mayjen Yono Soewoyo
Kelurahan Pradah Kali Kendal,
Kecamatan Dukuh Pakis
Graha Famili – Surabaya
Jawa Timur, Indonesia 60226
Indonesia
T +62 31 99001265
F +62 31 99001238

Yangon
Enterprise Singapore
Union Business Center, #03-11
Nat Mauk Road, Bo Cho Quarter
Bahan Township, Yangon
Myanmar
T +95 1 860 3357
F +95 1 860 3359

Our Past Issues

// Vol.1_Jul 2012 China's Twin Paradigm Shifts - Beacons in a Sea of Change
// Vol.2_Jul 2012 Myanmar: Opportunities in Asia's Last Frontier Economy
// Vol.3_Sep 2012 Thailand: Resilience and Economic Revival
// Vol.4_Oct 2012 A Win-Wind Situation: Opportunities in the European Offshore Wind Industry
// Vol.5_Nov 2012 Indonesia: Partnering the Private Sector for Growth
// Vol.6_Jan 2013 Malaysia: State of Transformation
// Vol.7_Mar 2013 Forging Ahead in China: A Survey of Singapore Companies
// Vol.8_Apr 2013 Japan: Opportunities Amid Change and Recovery
// Vol.9_Jun 2013 Central China: A Growth Story
// Vol.10_Sep 2013 Driving Singapore's External Economy Beyond 30 Years
// Vol.11_Sep 2013 Vietnam: Prospects Amidst Challenges
// Vol.12_Oct 2013 Brazil: Beyond the World Cup and Olympics
// Vol.13_Nov 2013 Indonesia's Consumer Sector: Tapping the Consumer Dollar in Food and Retail
// Vol.14_Jan 2014 Myanmar: Navigating the Risks and Opportunities
// Vol.15_Feb 2014 China's Third Plenum: Decisive Shifts towards a Market-Oriented Economy and People-Centric Urbanisation
// Vol.16_Oct 2014 Mexico: The Aztec Tiger
// Vol.17_Oct 2014 Recipe for Success in the London Food Services Market
// Vol.18_Oct 2014 Making Inroads: Capturing Intrastructure Opportunities in Asia
// Vol.19_Nov 2014 The Philippines: A New Awakening
// Vol.20_Nov 2014 Turkey: Stepping into A New Era
// Vol.21_Apr 2015 Indonesia's New Administration: Infrastructure and Manufacturing Opportunities
// Vol.22_May 2015 ASEAN Economic Community: Opportunities through Economic Integration in Southeast Asia
// Vol.23_Jun 2015 M&A Opportunities: Guide to Successful M&A in Germany
// Vol.24_Sep 2015 Thailand: Opportunities Amidst Changes
// Vol.25_Oct 2015 Russia rebalances its economic focus: Opportunities and strategies to enter the market
// Vol.26_Nov 2015 India Fever 2.0: Gateways to the New India
// Vol.27_Mar 2016 Powering the Future: Capturing new growth areas in the power ecosystem
// Vol.28_Jul 2016 Vietnam: Renewed optimism amidst sustained reforms
// Vol.29_Nov 2016 Fuelling the future: Capturing opportunities in the emerging LNG market

Scan for past issues of Enterprise Singapore Insights

OUR GLOBAL NETWORK

ACCRA // BANGKOK // BEIJING // CHENGDU
CHENNAI // CHONGQING // DALIAN // DUBAI
FRANKFURT // GUANGZHOU // HANOI
HO CHI MINH CITY // ISTANBUL // JAKARTA
JOHANNESBURG // KUALA LUMPUR // LONDON
LOS ANGELES // MANILA // MEXICO CITY
MOSCOW // MUMBAI // NAIROBI // NEW DELHI
NEW YORK // QINGDAO // RIYADH // SÃO PAULO
SEOUL // SHANGHAI // SURABAYA // SYDNEY
TOKYO // WUHAN // XI'AN // YANGON

This brochure is printed using soy ink on recycled paper.

V2/Apr 2018

Enterprise Singapore
230 Victoria Street
#10-00 Bugis Junction Office Tower
Singapore 188024

1 Fusionopolis Walk
#01-02 South Tower, Solaris,
Singapore 138628

www.enterprisesg.gov.sg