Market Insights

Industrial Estate Development Potential in Special Economic Zones
Introduction

Special Economic Zones (SEZ) have great potential. A number of SEZs are already operating in various regions, whilst others are still in the development stage. The government is taking an active role in developing SEZs to accelerate national economic development.

Based on guidelines from the National Council for Special Economic Zones of the Republic of Indonesia, an area which has economic and geographical advantages should be prepared in order to maximise business opportunities, ranging from industrial, exports, imports and other economic activities that have high economic value.

Therefore, what is the potential for industrial estates in SEZ?

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Key takeaways

One of the reasons that SEZs are located in various provinces is to encourage regional development and economic growth.

Due to the geostrategic SEZ concept, industrial areas in SEZs have access to a wider global market and are expected to be able to increase productivity and have wider distribution.

The incentives offered, easier licencing processes, more transparent taxes, well co-ordinated spatial planning and management, as well as integrated infrastructural support, are expected to create higher potential and values for industrial estates in SEZs.
The Potential

Industrial estates are currently centred on Java island, mainly in the west part. Investing in Java appears to have great potential and SEZs are located in various provinces to encourage regional development and economic growth and improve Indonesia’s investment climate.

Business activities such as production and management, as well as logistics and distribution, are amongst those located in the SEZs.

Some of the reasons SEZs have good potential include:

**Incentives for investors**
The existence of incentives provided by government for investors is an advantage. Incentives provided are attractive, aiming to encourage and create a favourable investment climate, especially for foreign investors.

Industrial estates in SEZs have the advantage of incentives provided by the central and local governments, such as Tax Holidays, which apply to several types of business activities.

Licencing issues are one of the challenge that many investors often face. However, in SEZs, the ease of licencing is one of the key incentives, and has become government priority.

Another advantage is the special incentives which will be adjusted by BKPM based on the value of the investment.

Indonesia is a strategic country in trade routes and is trying to be able to compete with other Asian countries. This increased competitiveness is expected to attract investors to be interested in SEZs.

**Investment opportunities for tenants and investors**
SEZs, which are currently operating or under construction, have different business activities, ranging from heavy industry to light industry. What kind of business activities are suitable for industrial areas in SEZ?
Opportunities to invest in key or supporting industry activities such as:
- Logistics,
- Petrochemical,
- Automotive,
- Energy,
- Chemical,
- Processing of raw materials such as nickel, bauxite, metal.

Due to the geo-strategic SEZ concept, industrial areas in SEZ have access to wider global markets and ports and airports are expected to be able to increase productivity and ensure wider distribution for industries in the aforementioned business sectors.

This enables the quick distribution of large quantities of shipments to various regions.
Up until 2022, based on data from the National Council for Special Economic Zones of the Republic of Indonesia, there were 18 SEZs in Indonesia. Not all of these SEZs are already operational and some are still in the development stage. Based on the existing SEZ distribution, not all SEZs are intended for industrial areas, and some are for the tourism industry.

**Sumatra**
In SEZs involving activities such as:
Energy, Petrochemical, Chemical, Logistics

**Java**
In SEZs involving activities such as:
Automotive, Metal, Industries, Energy, Petrochemical, Chemical, Logistics

SEZs located on the island of Java are still the most preferred location.

**Kalimantan**
In SEZs involving activities such as:
Logistics

**Sulawesi**
In SEZs involving activities such as:
Logistics

**Papua**
In SEZs involving activities such as:
Logistics
Are SEZ benefits attractive enough?

It appears that some of the private industrial estates are starting to apply to become SEZs, understanding the opportunities offered by becoming a SEZ. Many of the developers are starting to look at the development of industrial estates in several areas, especially those located on the island of Java. Local governments also see great potential by offering opportunities for investors to manage industrial estates in their area. The potential for SEZs in the future, such as in the Ibu Kota Negara baru, will also be very attractive for both local and foreign investors. Supported by infrastructure development carried out by government in various regions in Indonesia, which is widely expected to be evenly distributed, this further enhances the opportunity for industrial estates in the SEZ to become increasingly attractive to various parties.
The incentives offered, easier licensing processes, more transparent taxes, well co-ordinated spatial planning and management, as well as integrated infrastructural support, are expected to create higher potential and values for industrial estates in SEZs. All these advantages are important for investors and/or tenants and such benefits may not be obtained in other industrial estates.

If the business activities being undertaken fall under the criteria for the intended SEZ, then the opportunity for carrying out business strategies and product distribution, especially if these activities are related to exports and imports, is good.