



Coordinating Ministry for Economic Affairs
Republic of Indonesia

GOVERNMENT POLICY FOR ECONOMIC DEVELOPMENT
Policy Reforms on Developing Industrial Zones
for National Economy Growth
2005 - 2015

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Origin of Fundamental Policy Reforms (Late 1990's)

1. Fall of 2nd President (1966 – 1998)

- Voters elected their representatives through their votes on contesting political parties which nominated their representatives for the House of Representatives at the national (Dewan Perwakilan Rakyat/DPR), provincial and district levels. Together with the representatives from military and provinces, the elected DPR members formed the People's Consultative Assembly (Majelis Permusyawaratan Rakyat/MPR).
- MPR is also mandated to elect president and vice-president; to formulate the 5 year National Development Plan (Repelita) and to elect the president and vice president. The MPR then mandated the elected president to implement the Repelita, and annually the president submitted Repelita's implementation progress report before the MPR.
- The President's political, Golongan Karya (Golkar), won all 1971, 1977, 1982, 1987, 1992, and 1997 general elections during his 32 years of presidency.

Results:

- a. As representatives of his party, Golkar, were the majority in the MPR (the totality of representatives from DPR, military and heads of provinces), the President was the sole architect and the executor of the Repelita.
- b. Practices of extractive political and economic institutions in politics and businesses impeded economic efficiency and competitiveness which contributed greatly to structural rigidities arising from regulations in domestic trade and import/export monopolies. There were also off-budget funds, such as the investment and reforestation funds; special taxes, customs, or credit privileges granted to certain projects.
- c. At around the same time, students' lead social unrests due to violation of human rights and widening of income distribution gap also took place nation-wide.

Origin of Fundamental Policy Reforms (Late 1990's)

2. Asian Financial Crisis 1997/98

The Asian 1997/1998 financial crisis crept into Indonesian economy through the foreign exchange market that contagiously caused a drastic depreciation of the rupiah.

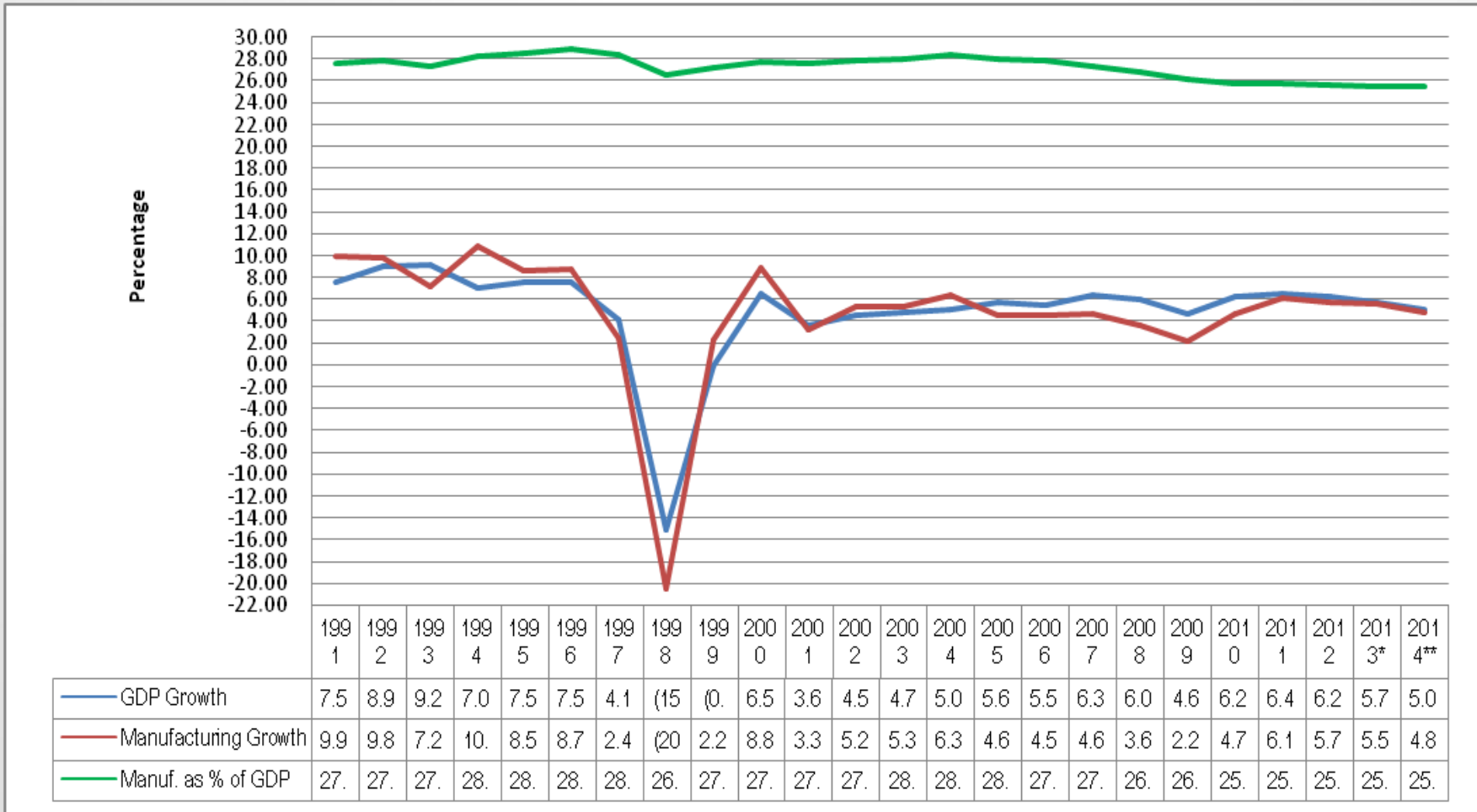
Thai's baht collapsed in July 1997 and over the ensuing months Indonesia was the hardest hit. Bank of Indonesia (BI) widened exchange rate band in July and, in August, unable to cope with the continued pressure on the currency, the rupiah was allowed to float – its cumulated depreciation reached 70 percent during July 1997 – January 2000.

The enormous depreciation did not seem to be the result of macroeconomic imbalances which remained quite modest, but it was due to severe loss of confidence in the currency, the banking sector, and the overall economy which exposed structural weaknesses in Indonesia's economy and in its socio-political fabric, which were then hidden by high economic growth.

Results:

- a. The country's GDP growth dipped from 7.5 percent in 1996 to 4.1 percent in 1997 and minus 15 percent in 1998; and rebounded to 0 percent in 1999; 6.5 percent in 2000 and increased to about 5-6 percent after 2004. The inflation rate in 1998 was 78 percent; 2.01 percent in 1999; 12.55 percent in 2001 and eased down to single digit in the following years, except in certain years when the Government reduce the fuel subsidies in 2005 (17.1 percent) and 2008 (11.06 percent).
- b. President Soeharto resigned in May 1998 and replaced by then vice-president, Habibie, the 3rd president.

Origin of Fundamental Policy Reforms (Late 1990's)



*) Preliminary; **) Very Preliminary

Source: Indonesian Statistics Bureau (BPS); <http://www.bps.go.id/linkTabelStatis/view/id/1202> (accessed 30 April 2015)

Amendments to the 1945 Constitution and Subsequent Reforms

During 3rd, 4th and 5th Administrations (Habibie 1998-1999; Wahid 1999-2001 and Megawati 2001-2004) the MPR amended the 1945 Constitution 4 times:

The 1st in October 1999; the 2nd in August 2000; the 3rd in November 2001; and the 4th in August 2002.

These four changes to the Constitution gave birth to fundamental changes into socio-political and economic fabrics of the nation until the present time (among others):

- direct general presidential and legislative election process;
- regional (provincial and district/municipal) autonomy;
- bureaucracy and administrative reform; and
- **the institutionalization and implementation processes of the national development plans.**
 - The amendments limit the presidential power as issuer of the laws as either president or the DPR (both were elected directly since 2004 elections) may propose drafts to be co-signed by the two.
 - The President and the DPR issued Law No. 25/2004 concerning the National Long Term Development Plan (RPJPN) 2005-2025. It was the continuation and renewal of earlier stages of development planning in Indonesia. The RPJPN aimed to achieve the development goals as mandated in the 1945 Constitution, and is divided in four stages, each with a lifespan of five years, named the National Medium Term Development Plan (Rencana Pembangunan Jangka Menengah Nasional (RPJMN)).
 - Based on the RPJMN the President began to issue series of Presidential Instructions (PI) to further specify detailed instruction on what, who, when, and targets of development programs mandated to line ministries/government agencies.

Amendments to the 1945 Constitution and Subsequent Reforms

RPJMN 2015-2019

This RPJMN was established under Presidential Regulation (PR) No. 2/2015, stressing food security, energy availability and management of maritime resources until 2019. Inclusive national program based on human resources and technology competitiveness in which inter-sector and inter-regional, and environment concerns are harmonized, is being prioritized. Works on the first year would be focused on laying solid foundation for sustainability of other development programs in later years.

This RPJMN reflects the vision, mission and agenda of the current Administration known as Nawa Cita, and is the basis for ministries and government agencies to formulate their respective Strategic Plans (Renstra-KL).

Regional governments also must take this medium term plan into account when formulating or adjusting their respective regional development plans. It is also the basis for formulating the Draft Government Budget (Rencana Anggaran Pendapatan dan Belanja Negara/RAPBN) in the respective year, to be proposed to the DPR for legalization. □

The realizations of these goals were tasked to the Cabinet (named Kerja) of this Administration which comprised of 30 line ministries/state agencies under 4 coordinating ministries (on affairs related to: economy; politics, laws and security; maritime; and human development and culture) responsible directly to the President.

Developing Industrial Zones (IZ) for National Economy Growth (2005-2015)



*) Preliminary; **) Very Preliminary

Source: Indonesian Statistics Bureau (BPS); <http://www.bps.go.id/linkTabelStatis/view/id/1202> (accessed 30 April 2015)

Developing Industrial Zones (IZ) for National Economy Growth (2005-2015)

A. Policy Background

Although policies to develop IZ have begun since 1970's in Indonesia, it is necessary to point out that:

- a. The main Government's policy on which the development of IZ hinges is the Law on Industry which was not issued until 1984 (Law No. 5 of 1984). This Law, however, scarcely addressed the issue of IZ, and further, this law was not renewed until thirty years later with the issuance of Law No. 3 of 2014;
- b. Another related crucial main reference to policies to develop IZ is the regulation on national spatial designation, and this was only available until 2007 (Law No. 26 of 2007);
- c. IZ is a variant of Economic Zone (EZ) at which integrated industrial activities, regardless of the sector, took place. Until the present time, there is no such regulation which lays out what these variants are and how they are related to each other with regards to their particular function and relation to Government's support/facilities for the development of national industry. Thus, the term Industrial Zone (IZ) is to mean exactly the same as "Kawasan Industri" in Indonesian industrial policies.

Developing Industrial Zones (IZ) for National Economy Growth (2005-2015)

Policies to develop IZs started in early 70's:

- As a simple supporting facility for foreign and domestic investment activities, and could only be established under the management of a State Owned Enterprise (SOE).
- However, at this time,
 - A formal national spatial designation has yet to be established/issued (not until 2007), and, as concerns over the environment were increased, the Ministry of Home Affairs, thus, was assigned to oversee the licensing of the establishment of IZs as it has local offices throughout the country. Later, private sectors were allowed to participate in the ownership/management of the IZ.
 - Law on Industry was not issued until 1984 with Minister of Industry as the main executor, and it only scarcely addressed issues to develop the IZ.
- Later in 1990 a Presidential Regulation to define characteristics of prohibited locations for the sites of IZ was issued (as they are designated for agriculture, forestry and environment), after the establishment of a National Coordinating Team to manage the national spatial designation through a Presidential Decree in 1989, followed by another Presidential Regulation on the establishment of IZ.
- Only four years later, another Presidential Regulation was issued to establish coordinated effort on the development of IZ under the Ministry of Industry which was then followed up by issuances of related ministerial/head of national agencies decrees.

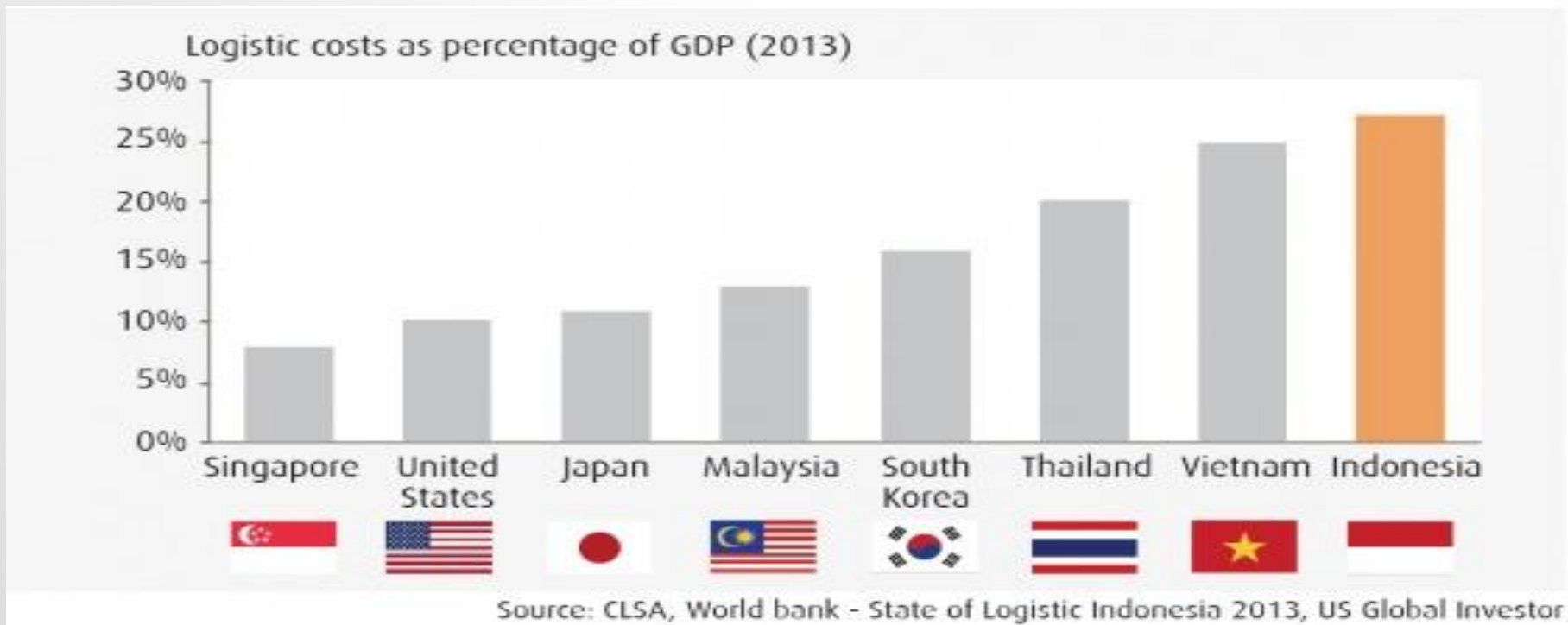
Currently there are about 66 companies managing the IZ, under the Indonesian Industrial Estates Association (Himpunan Kawasan Industri Indonesia (HKI)), in 13 provinces, covering total gross area of about 34,612.87 hectares with about 9,285 manufacturing companies operating and employing some 4,000,000 people in the industrial estates.

Developing Industrial Zones (IZ) for National Economy Growth (2005-2015)

B. Shift of Paradigm in the Development of Industrial Zone Policy

Based on the RPJMN the President began to issue series of Presidential Instructions (PI) to further specify detailed instruction on what, who, when, and targets of development programs mandated to line ministries/government agencies.

Also:



Developing Industrial Zones (IZ) for National Economy Growth (2005-2015)

Starting in 2008

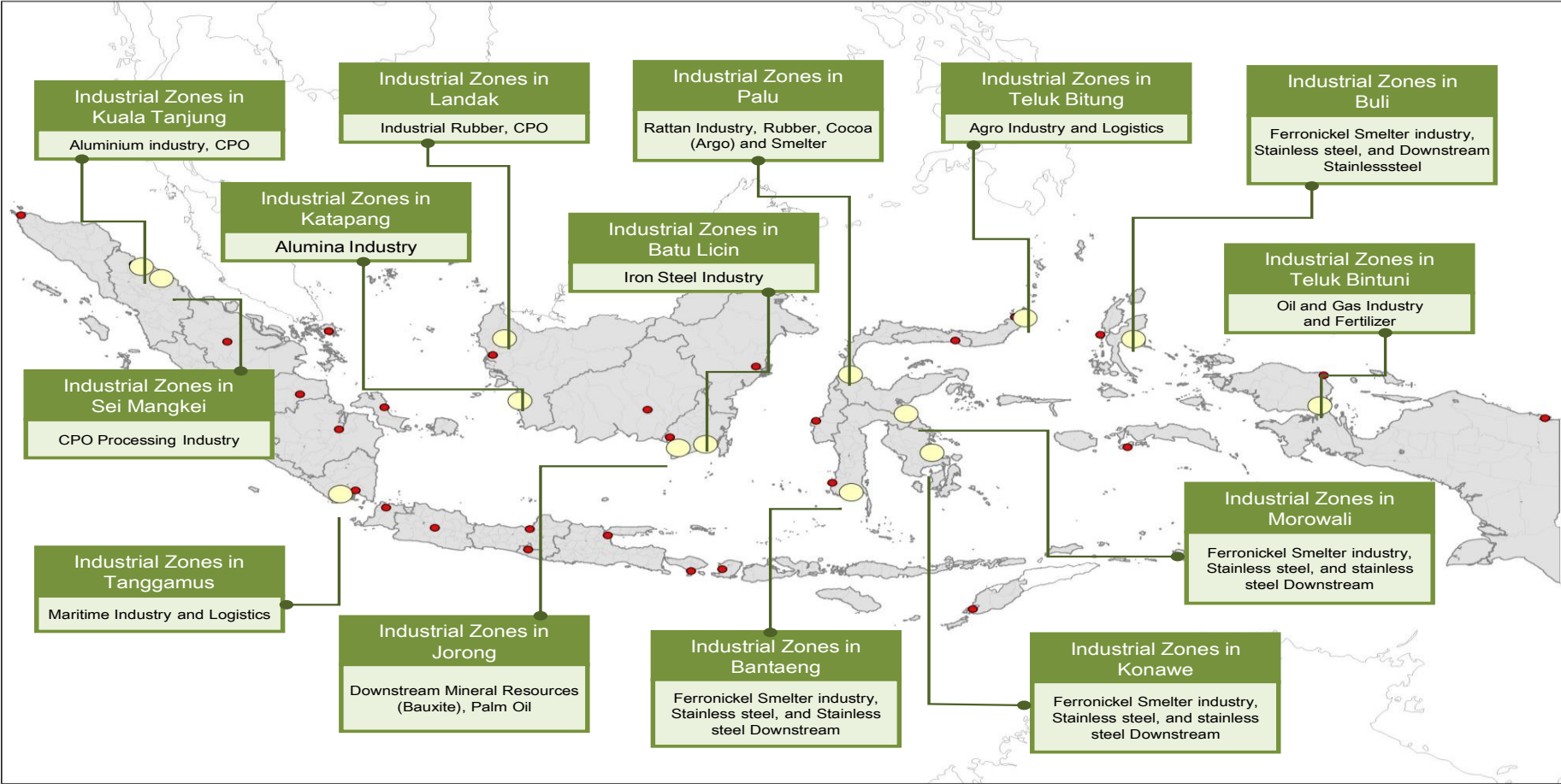
To respond logistics high cost -- in addition to regional commitments (ASEAN, APEC) and World Bank's indicators -- the Government, among others:

- Instructed line ministers/agencies to implement ICT-Based INSW program to improve cross-border movement of goods,
- Prepare, issue and implement National Logistics Blueprint that introduced the concept of ICT-Base supply-chain system in order to improve the national industry competitiveness.

[It is to note that, in general, the definitions/functions of the currently existing types of spatial area/zone at which industrial integrated activities are taking place do not address this cross-border flow of goods and/or supply-chain management systems.]

Developing Industrial Zones (IZ) for National Economy Growth (2005-2015)

RPJM 2015 – 2019M: To Build/Develop 14 IZs



DEVELOPING INDUSTRIAL ZONES (IZ) FOR NATIONAL ECONOMY GROWTH (2005-2015)

C. [Small] Success Story: Jababeka Industrial Zone (<http://www.jababeka.com>)

Located in West Java, the Jababeka Industrial Zone (Kawasan Industri) is managed by a public listed company, PT Jababeka Tbk since 1989, to develop about 5,600 hectare of land area.



DEVELOPING INDUSTRIAL ZONES (IZ) FOR NATIONAL ECONOMY GROWTH (2005-2015)

- Jababeka is supported by Cikarang Dry Port/CDP (www.cikarangdryport.com) that Implement ICT-Based INSW and Supply-Chain Management Systems.
- Currently, of the 66+ Industrial Zones throughout Indonesia, **only** CDP has the international port code: IDJBK.
- Having a proper ICT supported system, CDP implemented the INSW system since 2010.
 - Currently it allocates about 200 hectares of facilities providing supply-chain services through integrated port and logistics facilities and serves as an extension of Tanjung Priok International port;
 - Easily accessible by highway and railway system;
 - Offers a one stop service for cargo handling and a logistics solution for international export and import, as well as domestic distribution, supported by integrated port and logistics services with dozens of logistics and supply chain players, such as exporters, importers, carriers, terminal operators, container freight station, bonded warehouse, transportation, third party logistics (3PL), empty container depot, as well as banks and other supporting facilities.
 - As other best practices, CDP uses the hub and spoke concept in implementing the supply-chain management system.

Main Lessons Learned

Apart from the need to implement national programs such as the electronic process in the clearance and release of cross-border and domestic goods, and the supply-chain management system at the IZs, impediments due to the following issues also need to be resolved:

- Lack of political centralization in the decision making related to the IZ development and implementation policies;
- Harmonization and streamlining of existing regulations;
- Inclusivity of local governments;
- Human resources;
- Adequate supply of electricity;
- Infrastructure fund and high cost of money; and
- Export market access and alternative export financing schemes.



Thank you, very, very much !