The Role of Incentives in Indonesia Special Economic Zone (Case in Sei Mangkei, North Sumatera Province)

Reffoni Mastaria Tarigan a *

a Universitas Brawijaya, Malang, Jawa Timur, Indonesia

INFORMASI ARTIKEL

ABSTRACT

This research using interview and document review to explore how far the role of incentives in Indonesia Special Economic Zones (SEZ) and how far the incentives can attract investments. This research was conducted in SEZ Sei Mangkei, North Sumatera Province, an SEZ that develop as the first industrial SEZ in Indonesia. The result showed that the most important incentive in SEZ is the integrated infrastructure, especially the establishment of seaport and railways which are connected to the SEZ and international trade line. Moreover, the investment in SEZ Sei Mangkei increased significantly after the basic infrastructure was developed in 2015. This study showed that collaboration among government and zone developers is necessary for accelerating the infrastructure development of SEZ.

INTISARI


Keywords: SEZ, incentives, integrated infrastructure, zone development

1. Introduction

To accelerate national economic development, it is important to increase investment by preparing a zone for it that has geo-economic and geostrategic advantages. Those zones are ready to be maximized for industry activities, export, import, and other economic activities that have high economic value. This concept of zone development is categorized as the establishment of Special Economic Zones (Akinci & Crittle, 2008).

Many countries have different concepts to explain the SEZ scheme clearly, but generally, the zone is described as the restricted area set up to boost the economy by implementing many incentives (for
example, immigration, tax, etc.) to attract investment. Aggarwal (2010) in his research on the economic impact of SEZs in India; he found that based on the features of some operating zones, they could be grouped into 11 types of SEZs which are integrated with various countries. One of these models is manufacturing-based SEZs. The first instance of this SEZ being employed was in 1920 in Cadis city. This initiative was taken to increase the value-added of potential raw materials in that region. Moreover, the Shannon Industrial Estate in Ireland applied special incentives and facilities to attract the export market then licensed as SEZ around the 1950s.

Typically, this zone development is referred to as a Special Economic Zone (SEZ) in Indonesia. They are established with the aim of attracting investment and accelerating regional development. Additionally, this was seen as a breakthrough zone development model which would increase economic growth as well as that of other industries, tourism, and trade. At the same time, it is expected to create new job opportunities.

SEZ development in Indonesia was initiated by the Laws 39/2009 about organizing the establishment of Special Economic Zones, so that they would directly contribute to goals of national priority (Nawacita). SEZs are built to be a point of national economic growth by optimizing the potential of a region and making it a ‘fuel’ for increasing competitiveness at the national and international level.

According to SEZ Report (2018), 12 (twelve) SEZs have already been established all over Indonesia as one of the main activities in industry and tourism. 6 out of 12 SEZs are formally operated. The government has committed to providing the infrastructure and incentives needed for investing in the SEZs. The investors will get many incentives: including location advantages, good infrastructure, licensing, taxation, customs and excise, goods traffic, and immigration to land.

The government has also committed towards facilitating the investor with legal certainty by mandating the authority to be given to the SEZ Administrator for each SEZ as the institution for providing services which apply to businesses and to get the regulated incentives. This has resulted in the investment commitment for 12 SEZs, until November 2018, being recorded to have reached IDR 105.54 Trillion.

Thus, in the end, the investor comes to the zone as the tenant, developer, or an infrastructure developer with a faster and unimpeded development process. The commitment made by the government to expand the SEZs is the main difference between them and other zones like Free Trade Zones, Industrial Zones, KAPET, etc. Thus, it is essential to explore further about the role of these incentives in SEZs to reach the noble objectives described previously.

However, little focus has been paid in studies to the role of incentives in SEZs in Indonesia. Previous studies focused more on the analysis of potential locations to be made SEZs (Lestari, 2016), the social perception of SEZs (Lingga & Pratomo, 2013), and environmental indicators in SEZs (Nababan et al., 2017).

This study has been conducted to contribute to existing empirical literature on the role of incentives in Indonesian SEZs. For a more detailed analysis, a case study was conducted in SEZ Sei Mangkei in the North Sumatera Province as a part of this study. The reasons for this are that SEZ Sei Mangkei is the first Industrial SEZ that has entirely operated and implemented the incentives as compared with the other SEZ, and also it has also already attracted investors with significant success. The data collected showed that until 2018, SEZ Sei Mangkei had attracted investments of IDR 7.831 trillion in total(SEZ Sei Mangkei Report, 2018). Thus, this study aims to explore the role of incentives in SEZs and is divided into three main parts: the location advantages, integrated infrastructure, and implementation of regulated incentives; and explore to what extent these incentives have attracted investors.

2. Theory

In these three decades, the number of SEZs has grown dramatically; before the 1970s, most zones were clustered in developed countries, primarily in Western Europe, and then established by some developing countries, mainly in East Asia and Latin America (Akinci & Crittle, 2008). There were only 79 zones in 25 countries around the world in 1975: significantly, the current number of SEZs is estimated to be over 4,800 SEZs worldwide in total (UNCTAD, 2019).

In China, the development of SEZs was given an important role when the government opened up the economy in 1980. Shenzen is successful in SEZ development which has significantly changed rural areas into the center of industries (Guo & Feng, 2007). Ota (2003) identified some of the factors that make SEZ Shenzen success. Firstly, the central government’s commitment to provide policies related to SEZ development which would help to create a pleasant environment to improve industry competitiveness. Secondly, building good infrastructure is a factor; Shenzen has the 4th rank world-class of business seaport and the Shenzen airport is famous and is ranked 3rd in China. The supply and quality of roads, service, telecommunication are also better inside the zone.

Thirdly, Shenzen has a location advantage as the coastal city which is adjacent to Hong Kong is a center of finance, information, and service on an international
scale. The crucial last factor for success is the efficiency and continuity of changing policies to increase the government’s administration capacity. The government has implemented the One Stop Service for big companies. Administrative transparency was also established to strengthen government accountability.

The SEZs in India also offered the same paradigm incentives which were implemented in China. Jain (2007) stated that SEZs are treated as foreign territory for trade, custom, and taxes. Some areas in SEZs are exempt from many laws and export and import regulations. Moreover, some areas in SEZs are allowed to import raw materials without paying customs fees and taxes. More importantly, all Indian companies, both public and private, joint ventures, and local governments can establish SEZs; moreover, the government also permits foreign companies to establish the same. Local governments were supportive of establishing SEZs in India. However, after sending the SEZ proposal to the Minister of Trade and Industry, the company or person must ensure the availability of basic needs in their region, such as water, electricity, and infrastructure. Hence, local governments play an important role in forming and developing SEZs, because they are delegated with confirming whether the location is suitable to becoming an SEZ.

The Thai Government by the Board of Investment’s (BOI) of Thailand (2015) declared that to boost investment in SEZs, government also facilitated financial incentives consisting of tax holidays and corporate and income tax advantages, VAT exemptions, and import duty exemption on machinery.

Nolintha (2011) found that development of the Second Thai–Lao Friendship Bridge allowed Lao PDR access to seaports in neighbouring countries. It also improved the effectiveness of the Savan–Seno SEZ, an SEZ that was created between Lao PDR and Thailand to enhance the GMS Economic corridor. By 2010, the investment rates as a result of better infrastructure, including the bridge, land clearance and development, water treatment, and electricity; surprisingly, 35 of 153 industrial lots have been sold to investors.

In contrast, some African countries experienced generous incentives in the SEZs made adverse effects. Research by Jauch et al., (2002) addressed that Mozambique and Malawi got little or no benefit in the rest of their economy after implemented incentives like taxes allowance, and excise. Meanwhile, based on Kinyondo et al., (2016) found that Tanzania's government also realized that the incentives and exemptions only effect on more loss of revenue.

To summarize, many countries have provided many incentives for attracting investment to SEZ. Based on the previous studies, most of the essential factors are the location advantage, the infrastructure, the government commitment to making the policy, and related to the number of financial incentives. However, some countries experienced there is no benefit of incentives in SEZs.

3. Research Method

The qualitative method is used in this research. The method will help to analyze the role of incentives in SEZ. The case study is located in SEZ Sei Mangkei, located in North Sumatera Province.

To analyze the condition before the establishment of SEZ Sei Mangkei, this study used data 2007-2011 and also data 2012-2018, after the establishment of SEZ Sei Mangkei. This study is conducted through a descriptive analysis, document surveys and interviews.

First, this study analyzes the preparation of SEZ development in Indonesia, it includes the preparation of institution and zone. Second, the incentives for SEZs are analyzed in three parts: a) the location advantage, b) the integrated infrastructure, and c) the regulated incentives.

Third, this study analyzes the progress and achievement of investment in SEZs and the relation between SEZs and incentives. Finally, the study is discussed the results based on the literature review and its position related to previous research.

This study employed primary and secondary data in analysing the problem. The primary data is in the form of interview data from 6 (six) key respondents.

<table>
<thead>
<tr>
<th>No.</th>
<th>Code</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>R-I</td>
<td>Manager Area of SEZ Sei Mangkei</td>
</tr>
<tr>
<td>2</td>
<td>R-II</td>
<td>The Head of General Bureau of Administrator SEZ Sei Mangkei</td>
</tr>
<tr>
<td>3</td>
<td>R-III</td>
<td>The Supervisor of Promotion PTPN III</td>
</tr>
<tr>
<td>4</td>
<td>R-IV</td>
<td>The Head of Controlling and Monitoring Division, Administrator of SEZ</td>
</tr>
<tr>
<td>5</td>
<td>R-V</td>
<td>The Head of License Division, Administrator of SEZ</td>
</tr>
<tr>
<td>6</td>
<td>R-VI</td>
<td>The Head of Law and General Bureau, National Secretariat of SEZ National Council</td>
</tr>
</tbody>
</table>

Source: Analytical result, 2019

3.1 An Overview of Special Economic Zones (SEZs) in Indonesia

In 2009, the Ministry of Finance Indonesia introduced Law No. 39 of 2009 regarding organizing special economic zones, to encourage the establishment of SEZs. This law is mandated by Law No. 25 of 2007 on Capital Investment (Investment Law) whose key goals are accelerating economic development and balancing development between the region in the unity of Republik Indonesia (RI).

Based on the annual report of SEZs (2018) released by the Coordinating Ministry for Economic Affairs (Indonesia), the government had established 12 zones: SEZ Sei Mangkei in North Sumatera, SEZ Tanjung Lesung in Banten, SEZ Bitung in North Sulawesi, SEZ Palu in Central Sulawesi, SEZ Mandalika in Lombok, SEZ Maloy in East Kalimantan, SEZ Morotai in North Mollucas, SEZ Tanjung Api-api in South Sumatera, SEZ Sorong in West Papua, SEZ Tanjung Kelayang in Belitung, SEZ Arun-Pakhuseumawe in Aceh, and SEZ Batang in Riau.

SEZs are developed in bonded areas in regions within certain limits that have potential geo economic and geostrategic advantages, and they offer special facilities and incentives to attract investment. According to the master plan, four more SEZs will be created in 2019. The development of SEZs was preceded by three years of preparation. However, the preparation is only initiated when the SEZ proposal is accepted. This stage consists of preparation for establishing basic infrastructure like roads, electricity, telecommunication, water treatment, etc. Subsequently, the government and developer prepare the facilities, incentives, and institution. Finally, the SEZ is ready to operate.

The Coordinating Minister of Economic Affairs is responsible for SEZ development, and they directly report to the president. The authority is delegated to the National Council of SEZ. The National Council mandates the vision for each zone council, which is supported by the administrator, the developer, and business management of SEZ/BUPP (the proposer of the SEZ).

The developer is responsible for providing the infrastructure and facilities inside the SEZs. Whereas, the government is committed to offering the outside infrastructure to connect the SEZs to international trade/markets like airports/seaports. The government also provides the certainty laws for business licenses; moreover, a government administrator facilitates easy permit services for the administration of investment, include receiving the regulated incentives in a one-stop service.

4. Results and Discussion

During the interview of the Respondent, R-VI stated that out of the total number of established SEZs, only four were operating in 2018: SEZ Sei Mangkei, SEZ Tanjung Lesung, SEZ Palu, and SEZ Mandalika. The situation was such because the SEZs were in the stages of development and could not accept investment. Respondent VI remarked:

“to be declared ready-to-operate, each SEZ must meet three criteria stage of readiness, 3 (three) years later after being determined, namely: land and regional, infrastructure, institutions and human resources, as well as the administrative control tools" (Monday, August 6th, 2018: 10.10 AM, source by author’s transcript database)

Moreover, R-VI stated that the biggest problem in the process of developing SEZs is land acquisition, which delays the development of basic SEZ infrastructure (highways, roads/ railways connecting to ports/ seaports). Moreover, the institution and human resources can be developed later. According to the 2017 SEZ Annual Report, the existence of 12 SEZs is realized in the availability of an area of 16,065 ha. Of this area, 67% (10,694 ha) of land is controlled by the SEZ’s proposer and builders and business entities (BUPP). The rest 33% (10,694 ha) is still in the process of land acquisition.

This fact highlighted that land acquisition is the main factor in accelerating development. PTPN III Report (2012), from the annual report was stated that acquiring land in SEZ Sei Mangkei was not difficult because the area was owned by PTPN III. It is mandated by the Simalungun Major Bill of Decision No. 188.45/193/BPPD/2013 which was about the appointment to handover land with the status of rights to cultivate (HGU) to land management rights (HPL).

4.1 The Location Advantages

SEZ Sei Mangkei is located in the center of a palm oil plantation. Moreover, Figure 1 describes the location of the palm oil mill as the source of raw materials for the processing industry in this SEZ. The geographical location of SEZ Sei Mangkei on the Sumatera island makes it one of the biggest producers of palm oil and rubber commodities in Indonesia.

Moreover, the efficiency of the production of palm oil and rubber became easier when, in 2011, the government mandated North Sumatera province as Indonesia’s West Economic Corridor, which changed the status of Sei Mangkei from an industrial zone to an SEZ (PTPN III Report, 2012).
There are about 30 palm oil mills in a 60 km radius of SEZ Sei Mangkei. These surrounding mills are mostly operated by PTPN III. Furthermore, there was less conflict in the process of land acquisition compared with other SEZs because PTPN III as the proposer owns the area, and hence the conflict of land in the zone is minimal. PTPN III has also increased the capacity of palm oil factories inside the SEZ by 30+45 tons of FFB/hour and of kernel factories to 400 tons kernel/day.

This location advantage of SEZ Sei Mangkei of being at the center of a palm oil plantation is an incentive for investment, especially in the palm oil and rubber industry. Moreover, the rubber processing industry, along with palm oil, were targeted in SEZ Sei Mangkei. Moreover, Respondent R-III stated, “No investment had been made in the rubber processing industry until now in SEZ Sei Mangkei” (Wednesday, July 25th, 2018: 15.00 PM, source by author’s transcript database)

As outlined in the SEZ Sei Mangkei Master Plan Report (2009), the palm oil processing industry still becomes the ultimate commodity before rubber. The allocation of land for the industry proves the same.

Thus, the availability of raw materials in an SEZ’s location decreases logistics costs, and using natural resources becomes an incentive in SEZ Sei Mangkei, a former industrial SEZ. Furthermore, the status of PTPN III as the developer of SEZ Sei Mangkei, and now as the holding company of plantation SoE, benefits from SEZ Sei Mangkei business development process of supplying raw materials, which has become more efficient because, under PTPN III itself, coordination costs are relatively less.

Furthermore, PTPTN III’s assets, factories in Sei Mangkei built in 2010, also become endowments for SEZ Sei Mangkei. These are palm kernel oil factories and CPOs and palm oil factories that accounted for IDR 76 billion and IDR 225 billion, respectively.

Moreover, an added advantage is SEZ Sei Mangkei’s proximity to neighboring countries like Singapore and Malaysia; Since it is geographically separated only by the Straits of Malacca, trading becomes convenient with good access from and into the SEZ.

The resulting data collected from the interviewees seems to indicate that the incentives given in the SEZ scheme have attracted investments; In the case of SEZ Sei Mangkei, this zone has attracted investments from the processed palm oil industry. It has also been found that the investments in the petrochemical manufacturing sectors have increased significantly after SEZ Sei Mangkei was established. This occurred when PT UOI made the decision to invest in the production of derivatives of palm oil in 2012.

4.2 The Integrated Infrastructure

The availability of proper infrastructure is very important in an SEZ. The integrated infrastructure inside and outside an SEZ is the responsibility of the government and SEZ developer. In SEZ Sei Mangkei—as mandated by the Major Simalungun Bill of Decision No: 188.45 /193 /BPPD/2013 which appointed PTPN III as the Development and Management Institution (BUPP) of SEZ Sei Mangkei—the development of the zone becomes PTPN III’s responsibility. PTPN III provided infrastructure inside the zone. Meanwhile, the government collaborated with the related ministries/agencies, and the local government provided the outside infrastructure. The infrastructure stages followed the master plan of SEZ Sei Mangkei.

According to the 2012 SEZ Report, the basic infrastructure must be outlined and planned in an action plan in an integrated manner involving relevant ministries and institutions, as well as the regional government of North Sumatera province.

However, the existing infrastructure at the time included the Belawan seaport (146 km), Kuala Namu Airport (106 km), and the highway Belawan-Medan-Tanjung Morawa (34.4 km). In 2014, the government began constructing the Medan-Kuala Namu-Tebing Tinggi highway (63.5 km), which became operational in 2018.

The significance of the role of infrastructure in SEZ Sei Mangkei is the availability of railway directed to SEZ Sei Mangkei. The other segment—the construction of the Bandar Tinggi-Kuala Tanjung railway—has been finished and became operational in 2018. This will make SEZ Sei Mangkei the first industrial area with its own railway line directed to the seaport, since its initial planning.

The Unilever Oleochemical (UOI), was even operating a factory in SEZ Sei Mangkei and exporting its products through the Kuala Tanjung Port in December 2018. In an interview with the SEZ administrator, the Managing Director of UOI said (SEZ Sei Mangkei Report 2018):

“We feel happy for the first time we have delivered goods through Kuala Tanjung seaport. As the first investor in SEZ Sei Mangkei, the UOI is facing various challenges, one of them is a logistical problem. During this time, all of our goods flow is carried out through the Belawan seaport, which is located further than the Kuala Tanjung. With the operation of this port, we will be able to improve efficiency in operational terms and logistics and to reduce carbon emissions. Besides that, de the operation of this port will make SEI SEZ Mangkei continues to grow” (Friday, June 29th, 2018: 08:10 AM).
Moreover, PTPN III also developed the infrastructure inside the zone. Based on the SEZ National Council (2013), the Coordinating Minister of Economic Affairs initiated the construction of the Waste Water Treatment Plant (WWTP), storage tank, road infrastructure, drainage, electricity network, and water treatment facilities.

The infrastructure built for SEZ development is crucial because it would not exist if it had not been planned for the SEZ to be established in that area. On the other hand, building the integrated infrastructure necessitates clear delegation and coordination between the local government, national government, and the zone developer. Significant problems have often occurred in the case of land acquisition, which can hinder the rest of the development. Thus integrated infrastructure is not an effective incentive for the SEZs. Based on these results, access to international ports is a vital part of the integrated infrastructure in SEZs. However, in the case of SEZ Sei Mangkei, the railway line to Kuala Tanjung port has not been fully developed, and it has been late to commence operation, taking into consideration that the target period was 2017.

Meanwhile, the availability of seaports is very important regarding the access to international trade and for transporting the flow of goods. As shown in our case study, Kuala Tanjung seaport towards SEZ Sei Mangkei has been designed by the government to be a center of international liaison. The operation of this port is expected to be able to bring about an increase in investments for SEZ Sei Mangkei, with low logistics costs and more convenient connectivity between integrated SEZs, railways, and international seaports. Moreover, if the Kra canal in Thailand is built, Kuala Tanjung will then become one of the crucial ports with regard to strategic location in the “new shipping lane” to be established.

However, even the Kuala Tanjung operation has not been inaugurated formally by the president and the role of this seaport has impacted the tenants. The interview results from the UOI manager showed that the Kuala Tanjung seaport would, in the future, become the main gate used by UOI to reach customers all around the world. While helping to improve the efficiency of logistics and operational costs, shipments from mixed modes of the Kuala Tanjung seaport and the railway also help UOI to decrease carbon emissions with the transition from road transportation mode to rail mode being made. This was established following the SEZ’s commitment to present a Green SEZ (Wahyuni, 2012).

Therefore, we can conclude that the number of natural resources in the surroundings of the SEZ based on natural resource endowment is not always a sufficient incentive without excellent infrastructure.

It is found that The first tenant from UOI company complained some of problems present in 2015; the gas prices were not relatively competitive with another zone in Indonesia (for example, gas prices at Unilever in Cikarang were at US$ 9.8 per MMBTU and in Rungkut at US$ 6 per MMBTU) or other countries (SEZ National Council, 2016).

The high gas price was caused by importing the Liquid Natural Gas (LNG) from outside North Sumatera. The LNG prices are relatively higher compared to natural gas prices due to main necessity of the liquidation and regasification processes. Additionally, transportation from the LNG site to Arun requires toll fees, vice versa.

To resolve the problems, the government launched the Economy Policy Package part III in the form of decreasing electricity tariffs, fuel prices, and gas prices. The policy on gas prices would be effective from January 2016. However, according to the tenant, the changes were not so significant until 2019, when the prices went down to US$ 9.9 per MMBTU.

To summarize, the presence of integrated infrastructure in SEZs are coordinated among the national government, local government, and the SEZ developer. The government is committed to providing the infrastructure, especially ports/ seaports to promote international trade. This is the difference between industrial zones, FTZs, and other zones in Indonesia.

4.3 The Regulated Incentives Provided by The Government

As mandated in the government regulation No. 96 of 2015 of the facilities and incentives in SEZs, the government is committed to providing special regulation by employing the investment tools, which are divided into fiscal and non-fiscal incentives. These incentives are facilitated in the SEZs. In the case of SEZ Sei Mangkei, it is supervised by the administrator of SEZ Sei Mangkei located in SEZ Sei Mangkei’s area office. The administrator is eligible to provide a One-Stop Service (OSS) for Investment Registration and seven licenses: a) Notarial Deed and Decree of Minister of Justice and Human Rights, b) Tax Registration, c) Company Registration, d) Employment Plan, e) Working Permit, f) Import Identification, and g) Custom Registration.

According to Respondent R-V (from North Sumatera):

“After the investors fulfilled the requirement for investment registration, they will receive the business permit and some related licenses. Then, they formally get the regulated incentives provided in the zone. For example, the import duty facilities, the tax allowance over 30% for certain investors,
and also the tax holidays. All of this has been arranged in the Regulation” (Monday, June 25th, 2018:11.30 AM, source by author’s transcript database).

The archived documents of the SEZ Sei Mangkei administrator also depicted the number of permits issued. Table 2 described the total licenses issued by the SEZ Sei Mangkei administrator from 2015 to 2017. There were 56 licenses in total.

The OSS process has been conducted since 2015 in SEZ Sei Mangkei but was fully operational in 2017. According to Respondent R-IV, “there are problems in gathering the official (human resources delegated in the administrative unit) from many related ministries/ agencies. So that when the candidate investor applies, the process becomes slower” (Monday, June 25th, 2018:11.30 AM, source by author’s transcript database)

On the other hand, according to Respondent R-II result of interviewed said that: “the practice of OSS had not been implemented fully because the online system here (in SEZ Sei Mangkei) had not been improved. Moreover, BKPM often handles the process, which may cause the information to spread among investor candidates, making less investors directly come here to register. In another case, our (SEZ Sei Mangkei) location is not very close to Jakarta” (Tuesday, June 26th, 2018:09.45 AM, source by author’s transcript database)

Overall, the difficulty of implementing the OSS by the administrator seems to be caused by internal factors: the non-smooth coordination of human resources between the related ministries/ agencies to licensing and the inconsistent delegation authority between BKPM and the administrator. This might be related to the fact that the number of licenses issued in the previous three years is a relatively small number.

The role of those incentives in SEZs becomes the key to the strategy of mid- and long-term planning and managing. The results have begun to appear in the progress of investment and number of jobs. According to the 2018 SEZ Report, the total investment commitment into SEZs reached IDR 104.546 billion, and the realization was IDR 17.701 billion. Hence, it can be depicted as 5.9% of recognition from the promise. The report stated that, in SEZ Sei Mangkei, the total investment realization reached IDR 4,675 Billion of IDR 7.777 investment commitment, which is about 60% realization.

Moreover, in the stages of developing and starting the operation of 12 SEZs, about 1.6% or ± 10,700 workers from 695,000 workers planning have been employed. However, this figure does not include the addition of secondary labor, which is not directly related to the SEZ project. The emergence of accommodation, restaurants—both medium and small—and other small industries that were growing around the SEZs investment land caused the number of jobs to rapidly increase. In Sei Mangkei, the total employment absorption till 2018 reached 3,672 of the 83,304 expected workers by 2030.

4.4 The Development of Investment in SEZ Sei Mangkei

Investments came into SEZ Sei Mangkei along with the construction of the basic infrastructure since 2012. Hence, an investor can be part of the tenants or the infrastructure developer.

I consider SEZ Sei Mangkei’s initiative to accommodate the Indonesian palm oil (CPO) industries as more competitive. Indonesia is the number one CPO producer, but the value addition of palm oil commodities is still low. SEZ Sei Mangkei’s objective is to encourage the downstream industry to invest and generate excellent economic benefits.

The company UOI is the first tenant investing in SEZ Sei Mangkei and has even operated a factory since 2015. Based on an analysis impact of the National Council, UOI has employed 2,500 workers in the factory for completing the infrastructure and 600 workers in the factory. INL also stated that they hired 73% of local people among 232 workers in the company (SEZ National Council, 2018).

Unsurprisingly, Simalungun experienced a significant economic increase. Compared to the previous year, Simalungun’s economy grew by 5.13% in 2017 (Investment Board Simalungun, 2018).

Another notable initiative of SEZ Sei Mangkei is the improvement of palm oil production, which was offset by a decline in export of palm products. public demand for palm oil is used for the production of living necessities such as soap and many other goods that are now being produced domestically (31%) and exported (approx. 69%) (SEZ Report, 2018).

Table 2 The Investment in SEZ Sei Mangkei

<table>
<thead>
<tr>
<th>No</th>
<th>Investor</th>
<th>Product/ Sector</th>
<th>Commitment (IDR Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Unilever Oleochemical (UOI)</td>
<td>Soap noodles, fatty acid, surfactant and glycerine</td>
<td>2,200</td>
</tr>
<tr>
<td>2</td>
<td>UOI Part II</td>
<td>Esther</td>
<td>1,000</td>
</tr>
<tr>
<td>3</td>
<td>Industri Nabati Lestari (INL)</td>
<td>Olein oil</td>
<td>1,200</td>
</tr>
<tr>
<td>4</td>
<td>Alternatif Protein Indonesia (API)</td>
<td>Alternative protein</td>
<td>2,430</td>
</tr>
</tbody>
</table>
The participation of the local government is also crucial for the success of SEZs. The local government should get incentives for giving permission for the use of their territory. On the other hand, the local government could benefit from the success of SEZ when they work in collaboration, like in labor absorption and improving economic growth.

Regulated incentives in Special Economic Zones have been found to be essential in attracting investments, especially with regard to fiscal incentives like tax allowance and tax holidays. However, it is crucial that non-fiscal facilities such as the ease of doing business using the OSS System be made more efficient. This must be undertaken by the government so that the institutions can work effectively in doing their designated duties.

5. Conclusion

Integrated infrastructure and natural resources are vital incentives in SEZ development for attracting investments. Moreover, good governance to facilitate these incentives is crucial to support the acceleration of the investment.

As suggested by the data collected, connecting the SEZ area through the railway to the seaport is an added incentive for the SEZ. This strategic move will not only help in lowering logistic costs but also in improving the logistics system. However, it is important to complete the required development first before commencing operations in the SEZ as it provides the most significant endowment for attracting investors.

According to the findings of this study, changing Industrial Zones or other zone schemes to SEZs can be more beneficial because the proposed SEZ will have basic infrastructure built as compared to the minimal zone infrastructure. Moreover, by implementing the SEZ scheme, the government’s commitment to facilitate these services will generally be better upheld, as in the SEZs all authority is given to a single authority and they are different in treatment as compared to non-SEZs. Although there is no guarantee that such transitions prove to be a great success, it is necessary for them to be taken more strongly into consideration in future research.

Regarding the construction of integrated infrastructure, the most important part of preparation is land acquisition. According to the findings of this study, SEZs that are proposed by the existing company or SoE that have had a right to their land is decreasing the conflict of land clearing. In this case, supporting the position of the local government is crucial because the compensation will mostly be received by the local people of that region.

Due to limited data, the study only focuses on the role of incentives in SEZs and elaborates upon this topic using the case study method. Therefore, future research can be undertaken in comparing the role of incentives from other strategic zone developments that are different from those of SEZs to gain more knowledge about the role of incentives. Moreover, it will be highly interesting research and contribute to better zone development in Indonesia.

References

Aggarwal, A. (2010). Economic Impacts of SEZs: Theoretical Approaches and Analysis of Newly Notified SEZs in India. Munich Personal Repep Archive (MPRA), Germany.


