



INVESTMENT OPPORTUNITIES AND PROSPECTS IN THE INDUSTRIAL AREA OF BATAM INDONESIA



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WHAT IS BATAM

Batam is strategically located within an international shipping route between the Indian and the Pacific Ocean. It lies only 20 kilometres to the Southeast of Singapore which has one of the busiest seaports in the world. A ferry ride to Singapore takes only 40 minutes.

The area of Batam Island is 415 sq.-km. However, due to the progress of investments and demand of space, the Batam Industrial area was expanded in 1992 with the inclusion of two other islands, Rempang and Galang and the smaller surrounding islands, hence, giving a new name: Batam-Rempang-Galang or *Barelang*. The total area became 715 sq.-km. All the main islands are linked with the Trans-Barelang road, which include six beautiful bridges.

Although dubbed as an industrial area, Batam is developed to serve four main functions, namely: industrial, trade, tourism, and transshipment area. The whole area of Batam, Rempang and Galang is also declared as bonded area. All imported goods for production purposes, such as capital goods and raw material, are exempted from import tax. Batam is built to be an export oriented industrial area, so as not to compete with other industrial areas in Indonesia which market their products within the country.

Proximity to Singapore is one of the advantages so investors will not feel isolated in Batam. Batam is developed to take benefit of the progress that has been achieved by its neighbour. Facing land scarcity and high rate of labor wage, Singapore takes advantage of land availability and investment cost competitiveness in Batam. A close relationship between the two governments has encouraged good cooperation between private sectors on both sides.

WHY INVEST IN BATAM

As at the end of December 2001, Batam has accumulated a total of approximately US\$ 8.8 billion in investment comprising of US\$ 2.1 billion (24%) of government investment and US\$ 6.7 billion (76%) of private investment. Government investment is in terms of infrastructure development. Private investment comprises further of 49% or US\$ 3.3 billion of domestic investment and 51% or US\$ 3.4 billion of foreign investment. More than 531 foreign companies are operating in Batam while the number of local companies is nearly 9,700.

Industrial facilities are abundantly available. Investors can choose whether to plug into a commercially ready-to-use factory building with complete infrastructure and facilities or to acquire a lot to custom-build its factory. Erecting a 1,000 sq.-m factory building on a 2,000 sq.-m lot would cost only around US\$ 200,000, including the cost of acquiring land. There are 14 (fourteen) industrial estates offering their facilities ranging from ready-to-build lot parcels to buildings with complete facilities. Some industrial estates also offer a complete package which includes the processing of permits and licenses to relevant authorities and recruitment of labor. Housing for labor in dormitories is also provided within the industrial estate.

There are approximately 520,000 people living in Batam, coming from all over the Indonesian archipelago with 165,000 people employed in the formal sector, and 70,000 more in the informal sector. This labor is increasingly bettered skilled as they have years of training and experience. This skilled labor can be sourced directly in Batam, without the need of recruiting from other regions, such as Java and Sumatra. Half of the population in Batam are workers, making a very healthy dependency ratio.

Foreign investment application is processed with a **one-stop** policy in Batam and takes not more than 20 days to get approval. All permits and licenses required to start development are also processed "under one roof" by the Batam Industrial Development Authority with streamlined procedures. Companies are allowed to have 100% foreign ownership. Staying permit for foreigners working in Batam is easy to obtain from the local





Immigration Office. Foreign visitors to Batam will be given Visa on Arrival for most nationalities. Foreign nationals are allowed to buy and own houses, including shop-houses, whether or not they work in Batam. So, Batam could become a second home for foreigners.

All of these things reflect the commitment of the Indonesian government to fully support the development of Batam. Private sector involvement with strong support by the government is among the ingredients to have a successful development.

ADVANTAGES IN BATAM

Besides having a strategic location, space availability, labor supply, and government support, Batam has the advantage of having well-developed, modern infrastructures.

More than 1,000 km of paved roads and highways are there to link all centres of activities. These roads are continuously being improved with the addition of lanes to anticipate the rapid growth of traffic. Traffic jams are nowhere to be seen even at peak periods. There are three locations of seaport to serve cargo vessels and six locations of passenger ferry terminals around the island to minimize travel times to destinations with more than 100 trips daily serving Singapore and Malaysia. The biggest seaport in Kabil has a berthing capacity of 35,000 DWT (Dead Weight Ton) and is being improved to accommodate ships up to 150,000 DWT. In its ultimate phase, it will have a total wharf length of 5.5 km with an 18 m draft.

The Hang Nadim International Airport has a 4,000-m runway, the longest in Indonesia, to serve wide body passenger and cargo aircraft with 8 flights daily to Jakarta, and 50 flights weekly to other major cities in Indonesia. The terminal building has a total floor area of 31,500 sq.-m and will gradually be expanded to its ultimate design of 88,000 sq.-m.

Telecommunication facilities are also of the highest standard with state-of-the-art technology which has used only 75% of the available capacity. One does not feel isolated in Batam since communication to all parts of the world is only one button away. Electricity is supplied by PLN, the state-owned electric company, and additional power is also supplied by private power plants.

Fresh water is abundantly available from six man-made water reservoirs built around the island with the total capacity of 3,850 litres/second. Supply of clean water is sufficient to support a population of 800,000 people and industry and has conformed to the standards of the World Health Organization and currently runs at a capacity of 1,710 litres of clean water per second.



SUITABLE INDUSTRIES

Seizing the opportunities laying ahead, more business opportunities are opening up in Batam. Batam is open for any kind of industry. There is practically no restriction for industries to be set up in Batam. However, some industries are more suitable than others. The largest industry operating in Batam is the electronic and computer related industry such as components and parts, audio and video equipment, automotive parts, printed circuit board (PCB) makers, etc. This type of industry is most suitable because the supply of labor is not limited and easily trainable. Other light industries include fabrication of leather goods, shoes, garment, toys, consumer products, household products, and healthcare products.

There are some companies involved in heavy industry such as steel fabrication, pipe threading, oil exploration equipment, oil rig fabrication, offshore jackets, and heavy equipment. In addition to that, there are also 41 shipyard industries for repair and shipbuilding in Batam. With adequate hazardous waste control, the chemical industry is also allowed. Among chemical industries that are now operating in Batam are fatty alcohol factory, paint producing factories, pipe coating, and chemical companies.

Some well-known multinational companies which are already operating in Batam include: ABB, Ciba Vision, Epson, Halliburton, Hydril, Hyundai, Matsushita, McDermott, Nippon Steel, Pan United Shipyard, Philips, Sanyo, Schneider Manufacturing, Siemens, Sumitomo, and Thomson Television.

INVESTMENT IN TOURISM SECTOR

Besides the vast growth in the manufacturing industry, tourism has been a booming industry in Batam. The total number of tourist visits to Batam in 1999 reached more than 1.25 million, in 2000, 1.1 million, and in 2001, 1.2 million, averaging more than 100,000 each month or 3,300-tourist visits every day; making Batam the second busiest area for tourism in Indonesia, after Bali. There are 5,600 hotel rooms, 60% which are starred hotels and beach resorts. Six international standard golf courses and two marinas are among the favorite weekend activities for visitors. Traditional "Kelong" restaurants by the beach, serve a variety of delicious fresh seafood to satisfy visitors appetite. Bargain shopping offers goods and products ranging from traditional handicrafts to international branded goods. Year round warm tropical weather makes the most of your days in Batam. Most importantly, wherever you go, you will be greeted by kind and friendly people.

Additional islands linking to Batam are the islands of Rempang and Galang which are especially suitable for tourism and investment for they have beautiful scenery, good beaches, and also fascinating coral reefs. Boat cruises touring the water between the islands is among potential attractions, which need to be explored. Rempang Island holds historical significance where the Allied Forces imprisoned Japanese prisoners of wars who were captured at the end of World War II. Galang Island is famous because it was rated the best refugee camp by the United Nations (UN) and was used to accommodate refugees from Vietnam, Laos and Cambodia from 1979 to 1996. These two special historic sites can bring out many untold stories of their experiences.

The number of foreign visitors coming to Batam makes the tourism industry a good opportunity and very prospective for investment. Tourism related investment makes up about 16% of the total private investment in Batam amounting to US\$ 800 million. The government assisted by the Batam Tourism Promotion Board puts a continuous effort to promote the industry in Batam by organizing social and international cultural and sporting events.



Indicators of Batam's Economic Growth

Indicators	Unit	1998	1999	2000	2001
Total Investment	Billion US\$	6.75	6.98	8.01	8.80
Government Investment	Billion US\$	1.58	1.63	1.90	2.10
Foreign Private Investment	Billion US\$	2.25	2.33	2.82	3.40
Domestic Private Investment	Billion US\$	2.92	3.02	3.29	3.30
Ratio of Government to Private Investment		1 : 3.3	1 : 3.3	1 : 3.2	1 : 3.2
Regional Gross Domestic Product	Trillion Rp	5.26	5.90	6.60	8.09
Economic Growth	%	3.08	6.38	7.67	7.90
Foreign Companies	Companies	338	396	470	531
Small & Medium Enterprises, including Cooperatives	Companies	7,809	8,179	9,577	9,700
Population	People	266,000	358,000	462,000	520,000
Workers (formal sector)	People	141,000	150,000	155,000	165,000
Transferred Funds to Workers Families	Billion Rp	106	113	118	125
Foreign Workers	People	1,300	1,600	1,700	2,116
Tax Contribution to the Central Government	Billion Rp.	769	877	900	946
Revenue of Local Government	Billion Rp.	34	47	70	90
Export Value (Non-Oil-and-Gas)	Billion US\$	4.7	4.8	6.7	5.7
Foreign Visitors	Million	1.12	1.25	1.11	1.12
Foreign Exchange Earnings from Foreign Visitors	Million US\$	415	418	413	428
Roads & Highway Constructed	Km	484.7	543.5	1,034.1	1,050.5
Electricity Supply	MW	232	232	307	358
Water Supply	Liter/sec	850	1,150	1,210	1,710
Hotels (one to four-star hotels)	Hotel	25	28	32	43



Investment Facilities

Facilities offered to foreign investment in Batam are as follows:

- Allowance to establish 100% foreign ownership
- Streamlined procedure for foreign investment
- Foreign investment license for 30 years and extendable
- Simple immigration procedure for expatriates
- Land lease up to 80 years and extendable
- Easy import and export procedure

Investment Incentives

Competitiveness of Batam can be obtained through some incentives offered:

- **No import/export duties** on machine, equipment, spare parts, raw material. The whole island is duty-free with no import/export tax on any items.
- **No VAT** for all processing industry for export purposes. Unlike other parts of Indonesia, Batam is a bonded zone, thus, does not apply VAT on processing products nor consumption goods and neither does sales tax on luxury goods. If the manufactured products are sold in other non-bonded parts of Indonesia, they will then be applied 10% of VAT.
- **GSP (Generalized System of Preferences)** facility with 28 donor countries; also the Common Effective Preferential Tariff for ASEAN countries.
- **Investment Allowance** with reduction of income tax for certain industries with various incentives in reduction in calculation of net income, accelerated depreciation, compensation for losses, and lower tax rate considering Double Taxation Avoidance Agreement.
- **Double Taxation Avoidance Agreement** with 51 countries.
- **Competitive cost of investment** due to competitive tariffs on land lease, labour cost, utilities, and other operating costs.



Map Of BARELANG