“Indonesia 4.0: An Opportunity for Transformation”

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Avoiding middle income trap through industry 4.0

Demographics
Abundant working-age population and increasingly educated and IT savvy young generation

Urbanization
68% of the population is projected to live in urban areas by 2025. Income rise also drives higher consumption.

Global commodity prices
challenges and opportunities for Indonesia in terms of the country’s trade balance and enhancing the quality and diversity of investments in Indonesia.

Risk of growth slowdown and non-inclusive development
Food prices, health shocks and natural disasters can pose a threat to economic growth.

Key Challenges

Strategies

1. Increase labor productivity
2. Closing infrastructure gap
3. Closing the skills gap

Industry 4.0

- Raise productivity and GDP growth in Indonesia
- Harnessing the digital revolution to provide more job opportunities and reach more inclusive economic development
- Required skills include technological skills as well as creativity and advanced problem solving.

Making Indonesia 4.0: Manufacturing Industry Revitalization

Indonesia as one of the global Ten Largest Economies.

10% contribution of net export to GDP
Increase net export level to the same level as in 2000

2x rise in cost productivity
Boost production and its cost.

2% of PDB allocated to R&D
Develop local innovation skills

Targeted sectors:
- Food & beverage
- Textiles and apparel
- Automotive
- Chemical
- Electronic

Targeted outcomes:
- 70% Manufacturing industry GDP
- 65% manufacturing industry export
- 60% manufacturing industry workforce

10 National Priorities
1. Improve raw materials supply chain;
2. Redesign industrial zones;
3. Meet sustainability standard;
4. Empower SMEs;
5. Develop national digital infrastructure;
6. Attract FDI;
7. Improve human capital quality;
8. Develop innovation ecosystem;
9. Incentives for technological investment;
10. Synchronize regulations and policies.

Source: Ministry of Industry, 2019
Industry 4.0 and the future of work in Indonesia

Many more jobs are predicted to be created by 2030 than are lost to the increasing automation.

23 million jobs could be displaced by automation

Between 27 million to 46 million new jobs could be created in the same period

10 million of these jobs will be the new types of occupations.

Industry 4.0 Key actors

1. Companies
   Seen as primary leaders in addressing the skills mismatch by more than 50% of executives.

2. Labor agencies
   Facilitate employee mobility in labor market, eg, through supporting retraining or making benefits more portable.

3. Educational institutions
   Help companies fill their skills need, eg, by focusing courses on skills most relevant in the future.

4. Industrial associations
   Enable employers to build better talent pipelines in particular sectors to find skills that match demand.

Source: McKinsey, 2019
Healthcare, construction, manufacturing, and retail are the sectors that will likely benefit from increased labor demand.

The driving factors include:
- Increasing spending on healthcare for aging populations;
- Investment in infrastructure and buildings;
- Energy transition spending;
- Spending on technology development and deployment.

### Switzerland investment in Indonesia 2014 - 2019 (USD mn)

- Chemical & pharmaceutical: 584.93
- Other services: 306.87
- F&B: 193.6
- Trade & repairs: 172.93
- Machineries, electronic & optical: 156.57


### Future collaboration

1. **Fostering academic and industry collaboration**
   particularly in the sectors where Switzerland is very well-known of such as medical engineering and the related industries.

2. **Best practice on how to embrace technological revolution**
   Switzerland’s experience with highly reliable technology infrastructure in harnessing technological revolution such as artificial intelligence and cognitive computing systems.

3. **Knowledge transfer opportunities**
   Switzerland is among the world’s leading countries in terms of filed patents per capita which implies high level of innovative thinking.

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**Investment Realization and Projection 2015-2024**

**Kabinet Kerja 2015-2019**

*Total = Rp 3,382,0 T*

(206,9% of total 2010-2014)
Average growth (y-o-y) = 11,9%

**Investment realization projection 2020-2024**

*Total = Rp 5,799,7 T *

(171,4% of total 2015-2019)
Average growth (y-o-y) = 13,1%

*) Projection figures 2020-2024 refers to Presidential Regulation (Perpres) 18 /2020 on RPJMN 2020-2024*
Investment Target 2020

Target 2020

- **Rp 886 T**
  Investment realization target in 2020

- **Rp 246.3 T**
  Target of investment realization manufacturing industry in 2020 including downstream industry.

- **48.8%**
  Target share of investment distribution outside Java
There is relatively constant rise in Indonesia’s investment realization from 2014 to 2019.

The country booked its highest investment realization in 2019 during the last 5 years. DDI and FDI contribute 40% and 60% respectively to the total investment realization within the same period.

Total FDI realization in 2019 is USD 28.29 bn.

Singapore, China, Japan, Hong Kong and Netherland are the top 5 investing countries in Indonesia in 2019.

Switzerland is ranked 19th with total investment value of USD 0.15 bn.

Source: BKPM, 2020
Switzerland Investment Performance 2014-2019

Investment trend

Based on sectors (USD mn)

There is fluctuation in Switzerland’s investment in Indonesia in 2014-2019.

2015 was the year when Switzerland’s investment hit the lowest point at USD 61.84 mn and 2017 was the time when it reached its peak at USD 615.46 mn. However, there is decreasing trend from 2017 onwards.

Chemical and pharmaceutical industry accounts for 37% of total Switzerland’s investment in Indonesia. Other top performer industries include other services (20%), F&B (12%), trade and repairs (11%), and machineries, electronic & optical (10%).

Source: BKPM, 2020
Switzerland Investment 2014-2019 (based on location)

Over one-third of Switzerland’s investment in Indonesia is located in Banten.

Other locations of Switzerland’s investment include Riau Islands (10%), Jambi (2%), East Kalimantan (1%), and Lampung (1%).

Java accounts for over 75% of total Switzerland’s investment in Indonesia in 2014-2019.

Source: BKPM, 2020
Policy Direction 2020-2024

6 Key Performance Indicators of BKPM

- Improvement of Doing Business Ranking (EoDB)
- Acceleration of large investment realization
- Encouraging partnership between large investment project and local SMEs
- The distribution of quality investment throughout Indonesia
- Focusing investment promotion on the targeted sectors and countries
- Increasing domestic direct investment (DDI), particularly SMEs
Improving EoDB ranking

Indonesia’s EoDB ranking 2015-2020 and 2021 target:

Out of 190 countries surveyed by EoDB 2020, 115 countries have improved

EoDB 2021 target:

1. Establish commitment among ministries based on Presidential Instruction (Inpres) No. 7/2019 to undergo structural reform on 11 indicators;
2. Structural Reform
   - Formulate action plan on improving EoDB through interministries coordination;
   - Issue 17 regulations consisting of 15 ministrial regulations (Permen) and circular letter (surat edaran) to support structural reform.
3. Implementation monitoring referring to regulations issued in relations to 11 indicators;
4. Information dissemination regarding the related regulations and policies on EoDB improvement to ministries and regional administration.
Policy Direction 2020-2024

1. Encouraging partnership between large investment project and local SMEs

   **Minimum investment value requirement** reducing current requirement for minimum investment value for FDI from Rp 10 billion excluding land and building (existing) to Rp 2.5 billion if foreign investor partners with local SMEs in its production supply chain, particularly in developing application/ software (recommendation).

   **Facilities for companies that partner with SMEs**
   
   Recommendation to be granted tax allowance for large company which partners with SMEs. List of SMEs that are ready to partner with large companies will be provided.

   **Facilitation of Business Management and Financing for SMEs**
   
   - Improve production quality and quantity referring to the large companies’ standard.
   - Facilitation of financing for SMEs in regard to partnership with financial institution and stock selling at a stock exchange.
   - Large company can partner with SMEs through joint participation in the large company supply chain.

2. Distribution of quality investment

   - Increase investment to boost job creation and regional added value.
   - Downstreaming the processing of natural resources and export oriented investment.
   - Promote investment in capital goods/raw materials with regard to meeting domestic demands (import substitution).
   - Distribution of quality investment to outside Java, particularly infrastructure as well as improving investment and other economy.
### Policy Direction 2020-2024

<table>
<thead>
<tr>
<th>Sector</th>
<th>Targeted country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downstreaming of natural resources processing</td>
<td>East Asia, Middle East, Europe</td>
</tr>
<tr>
<td>Export oriented industry</td>
<td>East Asia, Europe, America</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Europe, East Asia, Middle East</td>
</tr>
<tr>
<td>Human capital development(e.g.: Vocational education cluster)</td>
<td>Australia, Europe, America</td>
</tr>
<tr>
<td>Import substitution industry</td>
<td>East Asia, Europe, America</td>
</tr>
<tr>
<td>Tourism (e.g.: tourism operator, developer and supporting tourism service)</td>
<td>Australia, America, Europe, East Asia</td>
</tr>
<tr>
<td>Labor-intensive industry (e.g.: furniture, textile, and electronic industry)</td>
<td>East Asia</td>
</tr>
</tbody>
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#### Strategies

1. **Promote collaboration between local entrepreneur and foreign investor**
2. **Support distribution of quality investment throughout Indonesia, particularly outside Java**
3. **Ease incentive request that suit investor’s need**
Increase DDI, particularly SMEs

SMEs’ contribution to national economy:
- 60.3% to GDP (2017)

SMEs’ contribution to job creation:
- 96.8% of total workforce (2017)

SMEs’ contribution to investment:
- 58.2% of total investment (2017)

Source: BPS, Kemenkop UKM (2017)

Strategies:
- Assistance of business management (legal issues, capital, technology, marketing, production, and operation)
- Increase partnership between DDI and FDI and SMEs
- Facilitation of access towards opportunity and investment potentials, particularly at the regional level
Online Single Submission (OSS), integrated online system

A. NEW INVESTOR (New registration)
B. EXISTING INVESTOR (Re-registration)

Company

Individual

www.oss.go.id

Obtaining investment license

- Business Identification Number (NIB)
- Business license
- Commercial/operational License

Monitoring

- National task force
- Ministrial task force
- Regional task force
SUPER DEDUCTION dan INVESTMENT ALLOWANCE

200% Super deduction untuk pengembangan SDM dan program vokasi
Pengurangan penghasilan bruto paling tinggi 200% dari jumlah biaya yang dikeluarkan, untuk WP Badan yang menyelenggarakan kegiatan praktik kerja, pemagangan, dan/atau pembelajaran dalam rangka pembinaan dan pengembangan sumber daya manusia berbasis kompetensi tertentu.

300% Super deduction untuk mendorong aktivitas R&D
Pengurangan penghasilan bruto paling tinggi 300% dari jumlah biaya yang dikeluarkan, untuk WP Badan yang melakukan kegiatan penelitian dan pengembangan tertentu di Indonesia.

60% Insentif investment allowance untuk industri padat karya
Fasilitas PPh berupa pengurangan penghasilan neto sebesar 60% dari jumlah investasi berupa aktiva tetap berwujud, untuk WP Badan yang melakukan investasi baru atau perluasan usaha pada bidang yang merupakan industry padat karya, atau tidak mendapat fasilitas sebagaimana dimaksud Pasal 31A UU Pajak Penghasilan atau fasilitas sebagaimana dimaksud dalam Pasal 29 ayat (1).