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*for a sustainable future*

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## I. INTRODUCTION

1. Indonesia, the land bridge between the South-East Asian mainland and Australia forms the world's largest island complex and consists of the islands of Sumatera, Java, Kalimantan (Borneo), Sulawesi (Celebes), Irian Barat (West Irian) and over 3,000 smaller islands stretching 5,500 km (3,300 miles) from the Indian Ocean to the Pacific and 2,000 km (1,250 miles) from north to south.

Lush, tropical and rich in natural resources, the islands lie in a semi-circle straddling the equator, with land surface amounting to 1,907,454 sq.km (736,469 sq.mls). Nearly four-fifths of the total area is sea. The island Java, site of the capital Djakarta, with its neighbouring island of Madura totals 132,890 sq.km (51,039 sq.miles).

### 2. Climate:

Climatically the greater part of Indonesia is described as maritime equatorial with consistently high temperatures and heavy rainfall in all seasons, though in many parts of western Indonesia there are distinct peak periods of exceptionally heavy rain when either the north-east or south-west monsoon winds are blowing on-shore.

However, southern and eastern part of Java, Bali and southern Sulawesi, which lie further south and nearer to the Australian desert, experience a clearly marked dry season during the period of the south-east monsoon.

3. Population:

The total population at the General Election census 1971 was 114,890,347 inhabitants. Indonesia ranks as the world's fifth most populous country and has a current annual growth rate of 2.6% per annum.

Distinctly richer soils, less dense vegetation, a high proportion of watered lowlands, an absence of extensive and unhealthy tidal swamp and its central location within the archipelago, the islands Java, Madura and Bali, comprising less than one thirteenth of the total land area of Indonesia but support almost two-thirds of its population.

4. Economic Development:

Since 1969, Indonesia started the developments of its economy by choosing the stageous manners. Each stage of development will be implemented in a period of five years. The first "Five Years Development" proceeding from 1969 - 1974. The main objectives of the First Five Years Development are to promote the agricultural development and rehabilitate the economy infrastructures.

At this stage the industrial activities should be emphasized on supporting the promotion of agricultural sector. The rehabilitation programmes of the stage has been almost completed, to the rest steps could be directed towards expanding the production capacities. The Second Five Years Development will take the range of term from 1974 - 1979.

At that period the emphasis would be expected on industrial or manufacturing sector.

## II. THE DEVELOPMENT OF MANUFACTURING INDUSTRIES

Over the past several years the economy of Indonesia has been relatively stabilized and growing, but there are distortions and gaps in the structure of industry. At the present time industry originates 7% - 8% of the G.N.P.

The distortions are revealed by the underdevelopment of certain industries relative to other industries in the economy.

The greatest lack of capability exists in metals, machinery and chemicals. Indonesian Industrial Development will need to be accelerated and the major gaps in the structure corrected as this sector is not to hold back the development of the economy as a whole.

The general strategy for industrial development will include the following:

- (a) a commitment to an accelerated rate of growth of industry;
- (b) correction of major distortions in the structure, primarily through emphasis on the engineering or machinery industries, base metals, and chemicals;
- (c) immediate initiation of full feasibility studies of major projects that are shown to have rates of return in the range of 15 - 20%. These projects include: direct reduction steel projects; petrochemicals core of plants; timber-based complex of plants to produce a range of products;
- (d) special programmes to change the orientation of the automobile industry and to stimulate engineering industries in mobile equipment, stationary equipment, ship-building and electrical equipment are required;

- (e) special emphasis on light and medium scale plants in the engineering component industries and in consumer goods are also needed;
- (f) bonded warehouses and industrial estates as far as possible will be located in free trade or free industrial zones which permit import or export of materials processing and re-export of a finished or semi-finished product without payments of the usual duties and taxes.

### III. PROMOTING MANUFACTURED EXPORTS

Like many other developing countries, almost all of Indonesia's exports comprise of primary commodities. Since it started, the industrial development had been characterized as import substitution industries.

However, Indonesia's diversified resource base could permit the substantial development of semi-manufactured and manufactured exports over the medium and longer term if adequate export incentive and economic policies are adopted by the Government. Extensive and varied forest resources offer an exceptional opportunity for developing wood products industry to supply domestic needs and foreign markets. The processing of mineral products and foodstuffs, the manufacture of rubber, leather, chemicals, petrochemicals and other products for export, could also become possible as the domestic industry base expands.

The Government policy on promotion of manufactured exports is at an experimental and preliminary stage and a comprehensive, effective export promotion programme is urgently needed.

There has been some experimenting by the Government in providing tax rebates and exemption on manufactured exports.



However, what is required for a successful export promotion policy goes far beyond the adjustment in the tax and tariff system, although they are important. A special export promotion "package" will be devised with careful consideration of the special conditions of Indonesia's manufacturing sector and potential export markets. Special institutions, such as a strong export promotion centre, will be required to provide direct government assistance to exports. The "package" of promotional measures which include government export credit and insurance, dissemination of foreign market information; assistance with foreign market surveys and exhibitions abroad; assistance in design, packaging and quality standard and reform of those elements of the public administration and export procedures which cause delays and increase the administrative cost of exporting.

The Government should be assisted to study the establishment of an adequate framework of inducement to export which could serve to stimulate manufactured exports during the 1970's. Since Indonesia's manufactured exports are starting from a low base, there is exceptional scope for increasing exports in the 1970's. There are no grounds for exports pessimism as steps towards establishing the proper institutional and policy framework will be taken over the next years.

As part of the Government's stabilization and rehabilitation programme, introduced in October 1966, measures were taken to increase Indonesia's export earnings by providing exporters with greater incentives. Essentially, this was accomplished by giving exporters of manufactured and traditional goods a progressively increasing percentage of their export proceeds over the next several years. Since April 1970, exporters

of manufactured products and handicraft were granted the right to retain all (100%) of their export earnings and further simplification of export procedures and reduction in bank charges were also introduced to increase the incentive to exports. The Ministry of Industries has also established a number of handicraft "sale emporium" at the major tourist centres to promote the export of Indonesian handicrafts. In addition, the Ministry has made an effort to improve the quality and design of handicraft products aimed at the export market.

In spite of these partial efforts to increase Indonesia's manufactured exports, only negligible amounts of manufactured goods, refined petroleum products aside, are being exports.

These mainly consist of rudimentary and simple processed foodstuffs, cement, leather goods, tyres, batik textile and handicrafts, although in recent years a few assembled manufactured products and components have been added to the export line.

#### IV. PREPARATION STEPS TOWARDS INDUSTRIAL FREE ZONES DEVELOPMENT

One of the main incentives for export, the Government has started to establish the bonded warehouses in the port areas. At the first stage the chosen areas are Djakarta, Surabaya and Tjilatjap areas in Java island. The purposes of the establishment are to provide the "bonded areas" or "free zones" in the main sea ports of the mentioned three areas. In these zones, the firms and supplier could permit to have the following facilities:

- (a) to store their goods and commodities at their own risk without any duty, such as import duties and other taxes;

(b) in the area of bonded zone, the industrial infra-structures and facilities will be provided to permit processing the export products or semi-finished export product, and processing or assembling the import goods for domestic business or users.

In order to realise the programme of the bonded warehouse development, Indonesia's Government has made the effort to invite the foreign assistance in technical as well as financial possibilities. Several contacts in negotiation have been made with the interested parties such as: PAK HOED N.V. from the Netherlands, W.T.A.G. from West Germany, ISBRANDTSEN from U.S.A., and AIMTO from West Australia, and lastly with MITSUI from Japan.

Until this report was drafted, there was no concrete decision made.

Without waiting for the concrete foreign assistance, the Government has prepared the operational programmes, which some of them could be specified as follows:

1. To establish the corporate body for bonded warehouse/zone system

At the present time a proposed Government regulation sponsored by the Ministry of Trade and supported by other ministries has been offered to the President which expected to enable the establishment of a "bonded warehousing system" in Indonesia.

The system will operate on the charter basis which is conducted by the Government.

2. Government measures on bonded warehouse/bonded zone

The charter will involve the measures regulating the activities of warehousing system which make possibilities to be used by the concerning parties.

3. Mobilization of Capital

Concerning this problem, the Government will invite the participation of foreign share by putting the majority on the Indonesian nationals. This policy is considered relating to the lack of capital and skill which are important.

The equity share of the Government will be comprising of land provision, infrastructure, public utilities and others.

The first National City Bank is one of the Foreign Banks, with its regional office situated in Djakarta, has shown strong interest in assisting in the financial aspect of bonded warehouse/bonded zone. It will be expected that together with national "Bank Bumi", the First National City Bank will take the role of consortium leader in Indonesian side. On the other hand, it would be expected as financial consultant. The intensive preparation, today, is carrying on.

4. Physical Preparation and Location Studies

The survey, research and feasibility studies have been worked out for the purpose of the location selection in many sea ports of Indonesia. Indonesia and together with the respectively following companies:

- (a) A.I.D.
- (b) PAK HOED N.V.
- (c) MITSUI + CO. LTD.
- (d) SHIPPING INDUSTRIAL HOLDING LTD.

have carried out several activities on the above mentioned aspects.

Strong possibilities have been decided to select the Tandjung Priok Port (Djakarta), Tandjung Perak Port (Surabaja) and Tjilatjap Port (Central Java) as proposed locations for the bonded warehouses/bonded zone.

5. Management Preparation

In order to have the efficiency and effectiveness of the objectives of the development of bonded warehouse/bonded zone, and to meet the demand of the suppliers and foreign users on vital and reliable facilities which would be provided, the Government will take the policy in management activities should be put on the base of management contract operational system for a period of from 3 - 5 years, between Indonesia and foreign experienced companies.

Meanwhile the national potential managers, should be prepared gradually.

Djakarta, February 1972