

Batam: Indonesia's underrated investment hotspot?



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Key takeaways

- The Indonesian Government is promoting Batam, the archipelago's only free trade zone, to investors looking to diversify their global supply chain
- Many Singapore-based companies are establishing their manufacturing base in Batam for its connectivity and workforce
- Batam's steady infrastructure developments are attracting foreign investors to partner locally

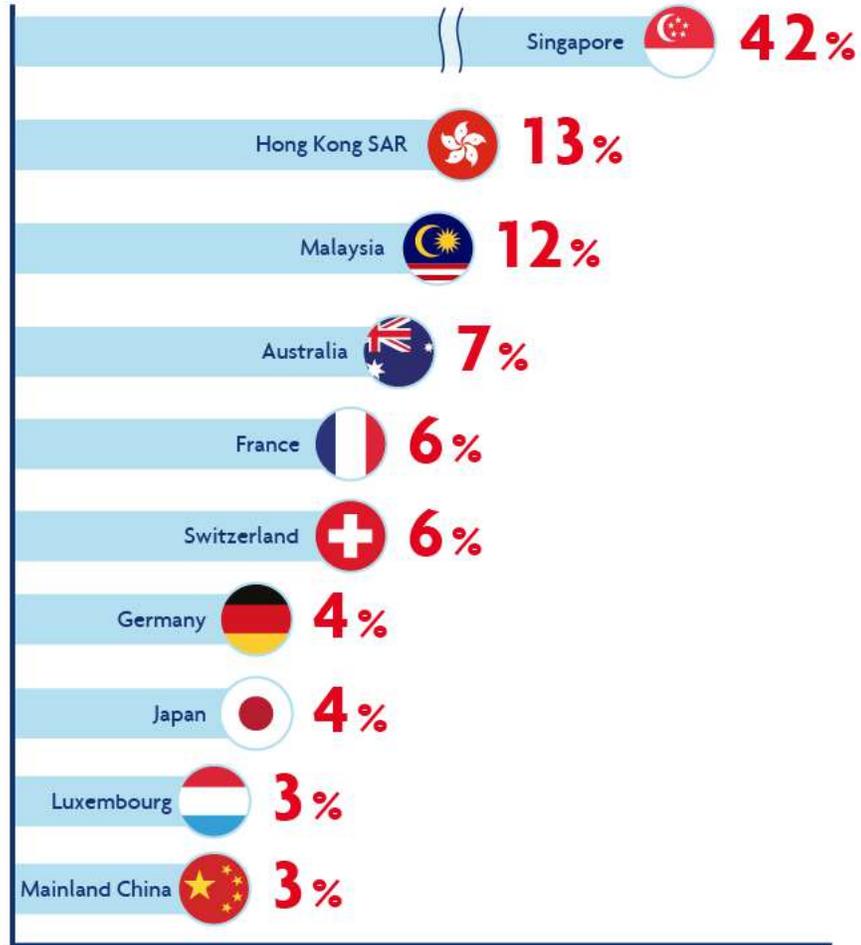
Batam is a free trade zone that is part of the BBK (Batam, Bintan and Karimun) Special Economic Zone. It houses factories producing goods from computer chips to precast concrete and is host to companies from a wide range of sectors. These include construction firm, Koh Brothers, contact lens maker, Ciba Vision, electrical equipment manufacturer, Schneider Electric Manufacturing Batam, and heavy equipment manufacturer, Caterpillar.

Companies in Batam benefit from having market access to Indonesia, the largest economy in Southeast Asia, while enjoying its proximity to Singapore, a well-connected regional hub that is a strategic node in global supply chains.

In 2019, Indonesian President Mr Joko Widodo announced that the country will start the construction of a seven-kilometre bridge linking Bintan and Batam – two islands located less than 30km south of Singapore – to further the development of tourism and industry on these islands. This initiative is also a strategic project under the government's 2020-2024 National Mid-Term Development Plan to boost economic growth in Indonesia.

According to Badan Pengusahaan Batam (https://uniservices1.uobgroup.com/secure/forms/urledmext_redirection.jsp?reURL=https://bpbatam.go.id/?path=data/ai/26) (BP Batam), the local investment and development authority, Singaporean companies are the top investors into Batam, contributing 42 per cent out of US\$2.5 billion in foreign direct investment from 2015-2020. In addition to Singapore, companies from Australia, France, Switzerland and Japan are among the top investors into Batam over the past five years.

Top 10 investors into Batam from 2015-2020



Source: BP Batam

Batam attracts a broad global investor base from countries including Australia, Japan and Switzerland

In 2018, Mr Widodo sought to boost the region's development and transformed it from a free trade zone to a special economic zone, which meant a wider range of fiscal incentives such as business tax breaks and income tax relief for workers. The mayor of Batam was appointed as the Head of BP Batam and took responsibility for its economic development, paved the way for clearer and more consistent foreign investment policies.

Since then, Batam has grown from strength to strength. Its economy grew 4.56 per cent in 2018 and 5.92 per cent in 2019, above the 2019 national economic growth rate at 5.01 per cent. High-growth sectors include communications and information (11.97 per cent growth), food and beverage (9.62 per cent growth) and water supply, waste management and recycling (7.23 per cent growth).

Four factors attracting Singaporean companies to Batam

Why Batam?



Batam's proximity to key Southeast Asian markets and low labour cost attracts investors

1. Location

Batam is a one-hour ferry ride away from Singapore. The ferry runs on a regular schedule, with trips every hour from morning to night and tickets are affordable at about S\$50 for a return trip.

2. Labour availability

Batam offers companies access to a large labour market. Indonesia's working population is young and productive – the country's median age is 29 and 60 per cent of the population is below 40 years old.

3. Economic incentives

Locally-registered companies enjoy exemptions from Value Added Tax (VAT) and import and export duties on capital goods and raw materials for production purposes. There are double tax avoidance agreements with 67 countries and tax holidays for new investments in targeted industries.

Companies in Batam are also allowed to be foreign-owned and foreigners can buy and own houses regardless of whether they are working in Batam. A 1,000-square metre factory on a 2,000-square metre land costs US\$400,000, including the cost of acquiring land. Some industrial estates even offer a complete package including permits and licences plus labour recruitment and housing for companies keen to enter the region.

4. One-stop processing

BP Batam processes foreign investment applications under one roof. To help foreign companies enter Batam seamlessly, BP Batam coordinates directly with other government authorities to deal with matters pertaining to immigration, manpower, tax and customs. These authorities include the Indonesian Investment Coordinating Board (BPKM), the Municipality of Batam and Batam Indonesia Free Zone Authority (BIFZZA).

Increased infrastructure development to support foreign investment

To encourage more foreign investment into the island, the Batam government has set up industrial zones, some with ready-built factories.

Batamindo Industrial is the first industrial park in Batam and was built as a joint venture between Singapore and Indonesia.

The 320-hectare park is home to 68 factories and a 50,000-strong workforce. Multinational businesses such as French industrial gas supplier Air Liquide, American telecommunication company, AT&T and American storage company, Seagate have set up assembly plants in the park.

Batamindo Industrial Park is also one of three industrial clusters in Indonesia to host a halal cluster pilot project to attract companies that manufacture Islamic-compliant food and beverage products as well as cosmetics and medicine.

A recent entrant, Nongsa Digital Park, was launched in 2018 and is marked to be the digital bridge between Singapore and other Indonesian cities such as Yogyakarta and Bandung. Broadband connectivity here is one of the fastest in Indonesia, supported by up to nine international and domestic fibre optic cables.

The 100-hectare integrated digital park where digital entrepreneurs can "live, work and play" houses Singaporean companies like Glint, a recruitment platform for IT teams in both countries and Stendard, a workflow process management company. Majority of Nongsa's tenants are based in Singapore and operate in digital economy-related

fields such as web design and development, software development and e-learning.

Global businesses diversify supply and manufacturing

Given the impact of COVID-19 on global supply chains, companies are currently looking enhance their supply chain resilience by diversifying their manufacturing and supply bases. Generally, growing interest in Batam will bring more demand for and value the home country as economy recovers post-pandemic.

Volex, a Britain-based company that manufactures and supplies power cords and cables electronic products will be expanding its operations in Batam. According to the Batam Development Authority, the first-phase commitment from Volex is worth US\$18 million.

Taiwan's Pegatron Corp has also announced an investment partnership with local electronics manufacturer, PT Sat Nusapersada. It will also be opening a 97,000-square foot factory making wireless chips and semiconductors for routers in Batamindo Industrial Park. Pegatron's total investment is estimated to reach US\$300 million with an initial investment of US\$40 million.

PT Yilin Aquatech Indonesia, a joint venture between China and US investors producing irrigation products such as nozzles and automatic watering systems, notes the regional connectivity that Batam provides. According to Zheng Shan En, director at PT Yilin Aquatech Indonesia, "Batam is just a short distance to Singapore and Malaysia, enhancing our logistic competitiveness as we can move goods faster and cheaper to regional consumer markets."

It helps to work alongside a banking partner who understands the intricacies of this growing region. UOB's partnership with PT Yilin Aquatech is one of many successful strategies to bridge access in their expansion journey with advisory and banking services options. Our regional expertise and network offer excellent support to foreign companies looking to connect with local ecosystem partners in the market. Currently, UOB Indonesia has four branches in Batam and one branch in Bintan.



About the author

Hendra Gunawan is the President Director of UOB Indonesia and has over 25 years of experience in the banking and financial services industry. He joined UOB in 2011 and has held several key leadership positions at UOB Singapore and UOB Malaysia. Hendra holds Bachelor's degrees from the University of Pennsylvania and currently resides in Jakarta, Indonesia.

Important notes and disclaimers
