

# Indonesia Industrial



# Industrial estates are a promising sector as economic structure changes

## INDONESIA'S ECONOMIC GROWTH

There has been a change in the economic structure of most Southeast Asian countries, including Indonesia with the manufacturing sector gradually taking over from agriculture. In the first quarter of 2023, the contribution of agriculture to Indonesia's gross domestic product was around 12.5%, while manufacturing contributed approximately 23.5%.

Nonetheless, the performance of the industrial sector has been largely attributable to the food and beverage

industry, representing 33.7%, while the contribution of the mining and metal industries has been relatively low, comprised of coal, oil, and gas (9.1%), metal products (8.6%), and base metals (5.3%).

## KEY GOVERNMENT POLICIES CREATING NEW INVESTMENT OPPORTUNITIES

Investment commitment continues to increase from year to year, reflecting the long-term optimism investors have towards Indonesia. The government has initiated

several investment-boosting policies, such as (1) Indonesia 2045: Indonesia aims to become the fifth largest economy in the world with a GDP of US\$7.3 trillion and a per capita income of US\$25,000 by 2045; (2) National Strategic Projects: Government is promoting several national strategic projects for accelerated development, including transportation and utility infrastructure, housing and tourism. (3) Omnibus Law: this aims to increase Indonesia's competitiveness, create jobs, and make it easier to do business in the country; (4) Making Indonesia 4.0: A policy aimed at supporting the local manufacturing sector.

The government continues to strengthen downstream activities in the industrial sector to encourage contributions from the commodity sector. The government has announced industrial down streaming since 2010, especially in three sectors: minerals and coal; plantations, marine, fisheries and forestry; and oil and gas. The downstream program is expected to boost upstream industrial performance, and encourage investment. This has in turn stimulated the performance of the industrial estate market.

## THE INDUSTRIAL MARKET

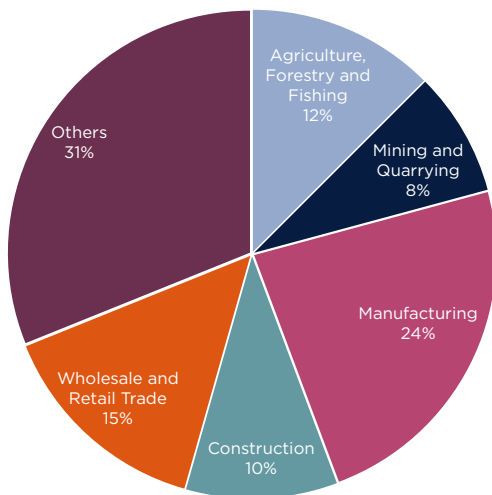
The development of industrial estates has been evenly distributed throughout Indonesia. Industrial estate development in Indonesia began in 1973, with the emergence of the Pulogadung Industrial Estate in Jakarta through a company called PT Jakarta Industrial Estate Pulogadung (JIEP) covering an area of 500 hectares.

Natural resources is the dominant sector, and has developed in Sumatra, Kalimantan and Sulawesi. The automotive industry is the second and has grown most in Java, especially in Greater Jakarta and West Java. Other sectors, such as data centres have witnessed growth over the last three years, especially in Greater Jakarta and Riau Island. High-tech textiles & apparel are mostly located in Greater Jakarta and West Java, while traditional and labour-intensive textile & apparel production takes place mostly in Central Java.

Most of the industrial land is located on Java Island, and there is currently ample availability.

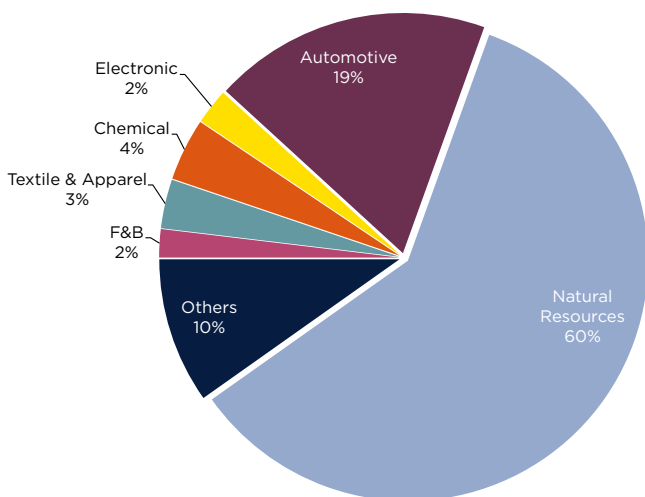
Industrial market activity is concentrated on Java Island, especially in Greater Jakarta, East Java, and Central Java, supported by the availability of land and sufficient

**GRAPH 1: Gross Regional Domestic Product at Current Market Prices by Industry, 1H/2023**



Source: Statistics Indonesia, Savills Research & Consultancy

**GRAPH 2: Industrial Sectors by Type, 2022**



Source: ketanserin.go.id

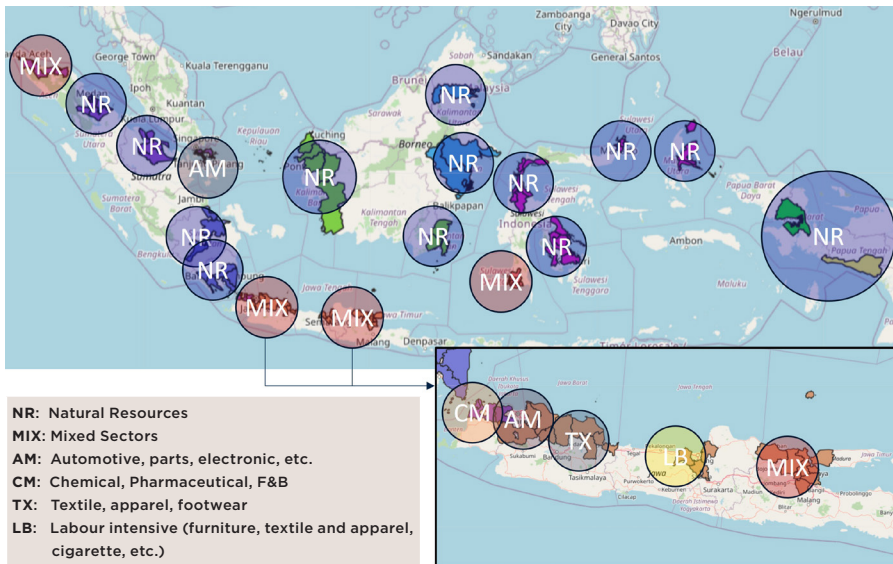
infrastructure and facilities. In addition, large-scale global industries have long been developing in Java, especially the automotive and electronics sectors. There are about 123 industrial estate developments in Indonesia, which are mostly concentrated on Java representing about 60.2% of the total supply or about 24,650 hectares.

Most of the new supply growth has occurred in the Bodebek Area (part of Greater Jakarta) and Central Java, while supply outside Java has been very limited, only occurring in North Sumatra and Riau Island.

Industrial estates have generally developed in Indonesia's big cities which are

**The manufacturing sector has remained the largest contributor to Indonesia's GDP since 2010 and even during the pandemic period, this sector contributed significantly to economic growth.**

**MAP 1: Distribution of Industrial Sectors by Type, 2022**



Source kemenperin.go.id

growing rapidly. However, the government is pushing to increase industrial activity outside Java, reducing the traditional reliance on Greater Jakarta and Central Java.

Based on type of business, the current main demand generators for industrial estates are automotive, chemicals, electronics, food & beverage, textiles and apparel, as well as a data centres. In the meantime, other inquiries come from companies in pharmaceuticals, high-tech textiles, and electric vehicles.

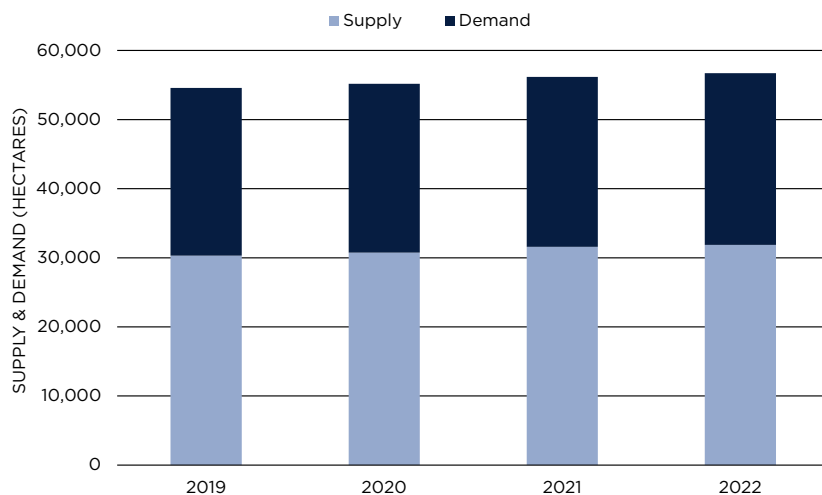
**INDONESIA'S COMPETITIVENESS**

Amid the global supply chain restructuring, Indonesia has stood to benefit within the Asia Pacific region. According to Oxford Economics, Indonesia will benefit from significant manufacturing job gains between 2021 and 2035. Indonesia offers foreign investors tremendous growth potential, which is backed by a large pool of low-cost labour, a fast-growing consumer market and abundant natural resources.

According to McKinsey, Indonesia can quickly return to its pre-pandemic growth rate, making it an attractive outsourcing destination and an important consumer market. Investment commitments have been increasing steadily over the years, reflecting the long-term optimism investors have towards the country.

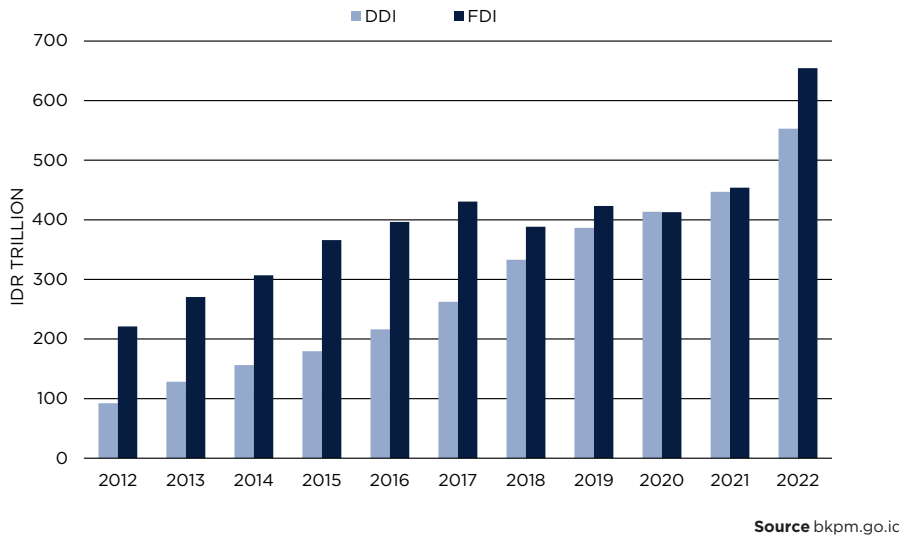
Total FDI was slightly higher than DDI, at IDR1,207 trillion in 2022. Domestic and foreign investment in the services sector represented the majority, while investments were mostly focused on Java Island, with some foreign capital heading to other fast-growing provinces in recent years. Asia Pacific investors have been leading the charge of FDI into Indonesia, with Singapore consistently at the top of the list.

**GRAPH 3: Supply and Demand of Industrial Land, 2019 to 2022**



Source Savills Research & Consultancy, May 2023

**GRAPH 4: Total Investment Realization, 2012 to 2022**



**OUTLOOK**

Geopolitics and supply chain concerns are benefiting South-East Asia, reflected in higher growth rates of urbanization and manufacturing employment. It is projected that the urban population in Indonesia will continue to achieve high growth over the 2022-2032 period and it is predicted that the proportion of manufacturing employment will continue to increase over the same timeframe.

Electric vehicles are one of the new sectors to emerge in Indonesia’s industrial market. Green industries are a new opportunity backed by central government and solar panels are also a fast-growing sector. The government is also eager to develop high-tech industries in more established areas such as Java Island while outside Java, natural resources remain the leading sector.

The contribution of the industrial sector is expected to increase to 26% of GDP by 2045 made possible by Indonesia’s ample land availability, strategic location, new infrastructure development, natural resource availability, as well as the government’s downstream program. The government also continues to encourage major infrastructure projects such as ports, airports, railways, toll roads, and major utilities. The government maintains its goal of becoming the fifth-largest economy in the world.



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