

# CASE ANALYSIS #1



## **STRATEGIC PLANNING FOR THE EAST JAKARTA INDUSTRIAL AREA**

EE 459 - Semester 1 / 2014

# Background



- The East Jakarta Industrial Area (EJIA) was first initiated during the late 1980s by Japan-Indonesia consortium to call more investments into Indonesia, and stimulate the economy. This plan was implemented in 1990s, and EJIA was successfully grown to the biggest industrial city in Indonesia.
- Currently, the size of the industrial city grew to 4,000 hectares of industrial zone with 2,000 factories, which is being the work place for nearly 4.0 million populations, and contributing to 17 % of the total export which amounted for US\$11 billion in 2006. However, this huge success is also causing a growing problem to EJIA: it grew too large without sufficient provision of infrastructures.
- The insufficiency of infrastructures, mainly logistic facilities of road and dry port, is impeding the sites' (industry's) competitiveness and continuous growth by creating a traffic jam from commuters and cargo transporters within the EJIA area. Jakarta itself is already notoriously known by its heavy traffic, and industries have already been suffering from the time cost to transport cargos to the Tanjung Priok port, which is the only port in the capital region.

# Background (cont'd)



- Some companies in EJIA has already expressed that if the traffic jam gets heavier within the industrial area, they need to seriously consider minimizing or shutting down their factories. In addition, compared to other fast growing Asian countries like China, Vietnam, Thailand, India and Cambodia, Indonesia is losing attractiveness from investors' point of view. Regulations for industrial activity are complex, and custom operations are inefficient. As a result, the investment climate falls sharply into unfavorable condition.
- In order to solve the existing problems of EJIA and Indonesia as a whole, Japan and Indonesia initiated a program to jointly work out the identified problems in the past few years. As a result, some positive remarks has been coming up, however, the fundamental weakness of EJIA and Indonesia, especially in the infrastructure issues, is not systematically recognized nor fully tackled yet. In this study, in order to find a more comprehensive solution for EJIA and Indonesia to revitalize incoming Foreign Direct Investment (FDI), the study team was formed to examine and propose a long-term vision of its infrastructure and industrial cluster development in east Jakarta, and to overcome the fundamental problem of insufficient infrastructures to keep Indonesia an attractive destination for FDI.

# Challenges of EJIA for future economic growth



## **1) Unclear future vision**

As long as the country's future development vision and projection on its economic growth model is unclear, the future business plan for companies in EJIA will not be decided. Before these foreign companies get exasperated by Indonesian government's weak commitment, an action should be taken.

## **2) Inadequacy of key infrastructures**

Ineffective road network is certainly being the main reason for both current and future EJIA investors' hesitation on expanding its business in Indonesia. Traffic jam is occurring not only inside of Jakarta city, but also around Jabodetabek and inside EJIA. Although Japanese companies, the major contributor to the growth of EJIA has been working on planning a new road network connection among EJIA area, the ineffectiveness of the national government to coordinate the designated local governments is slowing down the process. The commitment from Indonesian government is crucial to solve the problem.

## **3) Inefficient government regulations**

The major regulation trouble is occurring in the field of labor, custom, and land lease. The current regulation which prohibits employers to fire inefficient workers in reasonable circumstances and strong labor union is discouraging EJIA investors to expand its business. The inefficient custom process at the port is also slowing down the business operation. Moreover, the processes of obtaining land and relocating houses for public purpose are too slow for investors to acquire a quick business chance. Therefore, there is a serious need to find a win-win situation between labor unions and employers, to adopt an one-stop custom service in EJIA, and finally to simplify the land lease process to solve the deficits in the current regulation system.

# Schedule of Development

	Preliminary Study	Phase 1	Phase 2	Phase 3
	2008-2009	2010-2013	2014-2018	2019-2023
<b>Required Investment</b>		Road: \$75 million Port: \$560 million SEZ et al: \$200 x 1,000ha = \$200 million	Port Expansion: \$560million SEZ et al: \$200 x 2,000ha = \$400million Railway: \$1.25million x 50km= \$62.5million Airport: \$1,300 million	SEZ et al: \$200 x 3,000ha = \$600 million
<b>Overall Process</b>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">Physical Survey and Formulation of a Master Plan</div> <div style="border: 1px solid black; padding: 5px;">Land acquisition and resettlement of households</div>			<div style="border: 1px solid black; padding: 5px; text-align: center;">EJIA-JBIZ Corridor Completed</div>
<b>Road</b>		<div style="border: 1px solid black; padding: 5px; text-align: center;">Construction of access roads (increase to 4 lanes)</div>		<div style="border: 1px solid black; padding: 5px; text-align: center;">Expansion of the road to 6 lanes will be completed</div>
<b>Port</b>		<div style="border: 1px solid black; padding: 5px; text-align: center;">Development of port facilities</div>	<div style="border: 1px solid black; padding: 5px; text-align: center;">Expansion of the port facilities </div>	
<b>SEZ Housing Commercial Zone</b>		<div style="border: 1px solid black; padding: 5px; text-align: center;">SEZ, housing, commercial site development by private sectors</div>	<div style="border: 1px solid black; padding: 5px; text-align: center;">Expansion of SEZ, housing, commercial zone according to the populaton increase </div>	
<b>Railway Air Port</b>			<div style="border: 1px solid black; padding: 5px; text-align: center;">start the construction of railways, first for goods transportaion.</div> <div style="border: 1px solid black; padding: 5px; text-align: center;">start the construction of a new international airport.</div>	<div style="border: 1px solid black; padding: 5px; text-align: center;">Railway operation started, connecting JBIZ, EJIA, and Jakarta city</div> <div style="border: 1px solid black; padding: 5px; text-align: center;">Start of a new international airport operation</div>

**Source:** Engineering and Consulting Firms Association, Japan and Japan Development Institute (JDI)

# Surrounding Environment



Traffic flow on the highway



Traffic congestion in Jakarta City

# Surrounding Environment



Local road in East Jakarta Industrial Area (EJIA)



Traffic congestion on local roads

# Surrounding Environment

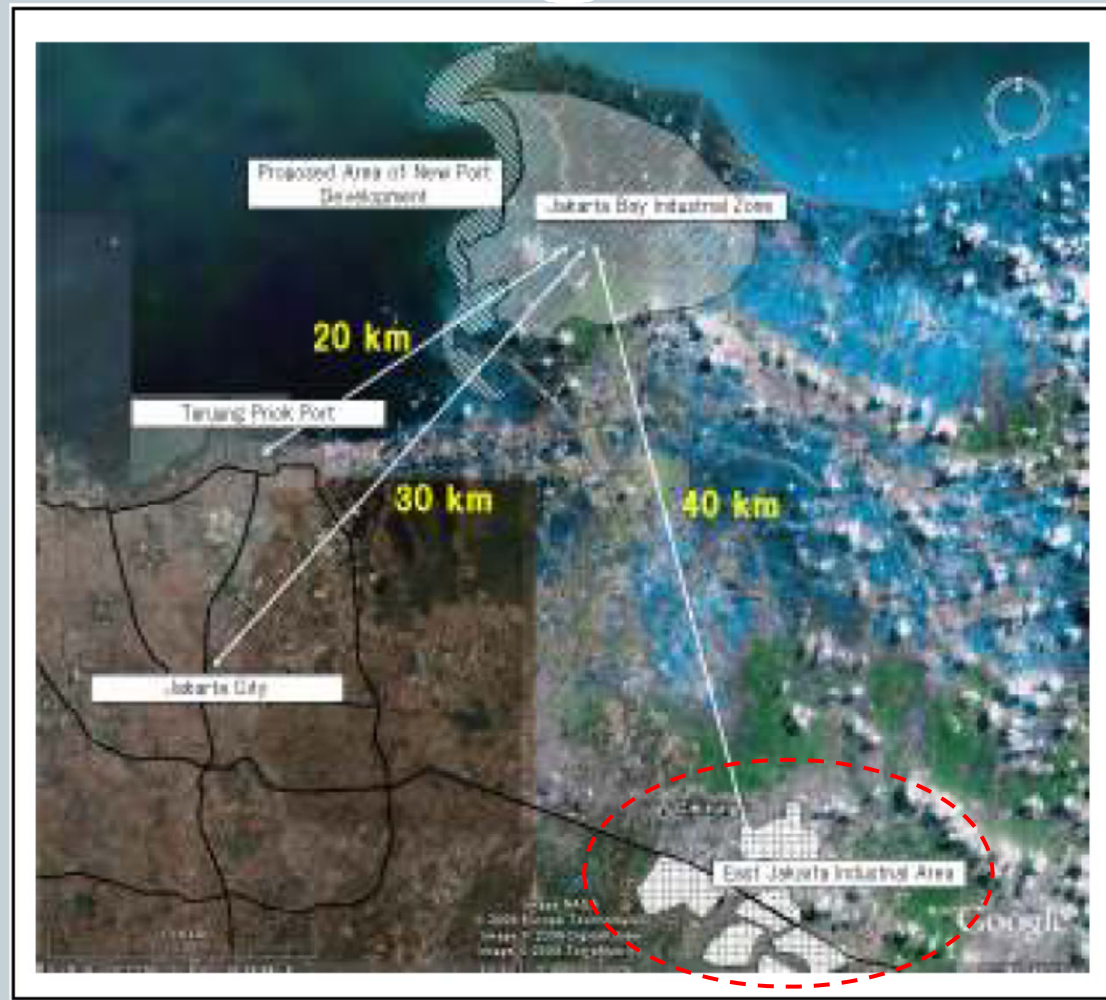


Facilities at T.J. Priok port



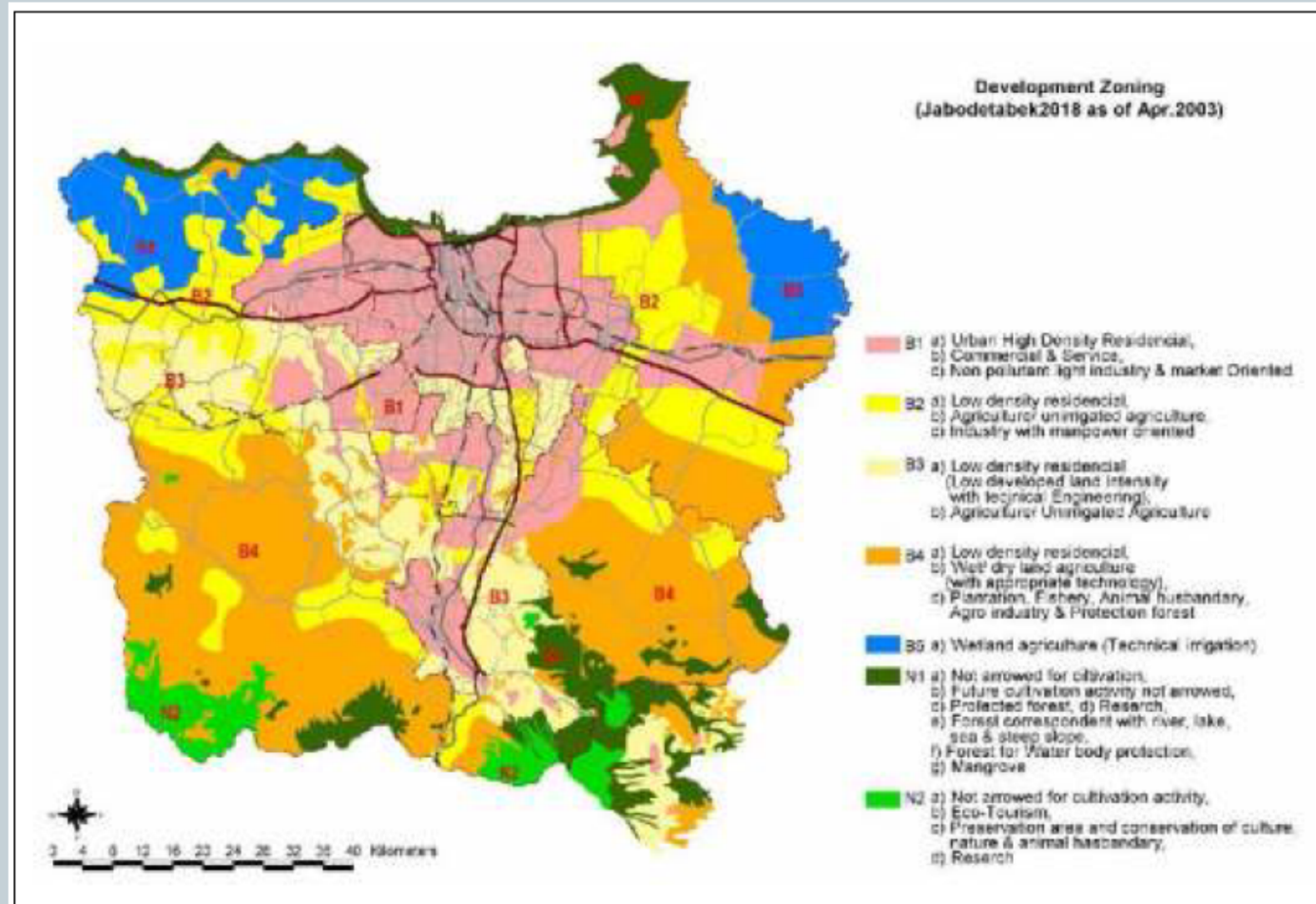
Local village in the prospective development area for the new port.

# Location Map



**Source:** Engineering and Consulting Firms Association, Japan and Japan Development Institute (JDI)

# Development Zoning



**Source:** Engineering and Consulting Firms Association, Japan and Japan Development Institute (JDI)

# Research Questions



**Q1.** What are the categories of exported products of Indonesia for its NAFTA, EU and Asian markets?

**Q2.** What would be the targeted industries to be located in the EJIA and their priorities? (formulating your planning recommendations based on Global IO Table and ITC's trade map)