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 JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)
THE BOARD OF INVESTMENT AND STATE - OWNED ENTERPRISES
(BPM - PBUMN)

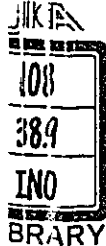
THE INVESTMENT OPPORTUNITY STUDY IN NORTH SUMATERA

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MARCH 2000

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PREFACE

This report has been prepared based on a study for investment opportunities in North Sumatra completed by the JICA Advisor Office in the Board of Investment and State-owned Enterprises (BPM-PBUMN), in cooperation with PT. Mitrapacific Consulindo International (Jakarta).

The main purpose of the study was to identify potential sectors or specific projects for investment and local entrepreneurs who may be looking for potential Japanese or other foreign investors.

The profiles of potential projects and local entrepreneurs are attached to the report as annexes and investors should have no difficulty accessing these from the home-page established by the JICA Advisor Office in BPM-PBUMN.

In addition to the potential sectors, projects and local entrepreneurs, the report also describes the geographic conditions, natural resources, location of infrastructure and other physical characteristics of the region. As such, the report should also be useful as a source of background information for government officers and professionals involved in development planning.

The study was financed by Japan International Corporation Agency (JICA), supported by the Board of Investment and State-owned Enterprises (BPM-PBUMN) and in cooperation with BKPM North Sumatra. We express our thanks to these institutions, without whose assistance we could not have completed the study or prepared the report.

JICA Advisor Office
The Board of Investment and State-owned Enterprises
(BPM-PBUMN)
March 2000

TABLE OF CONTENTS

SECTION 1.	INTRODUCTION	
1.1	BACKGROUND	1-1
1.2	METHODOLOGY	1-1
SECTION 2.	GENERAL CONDITIONS	
2.1	PHYSICALCHARACTERISTICS	2-1
2.1.1	Geography and Administrative Boundary	2-1
2.1.2	Climate	2-3
2.1.3	Topography	2-4
2.1.4	Geology	2-5
2.1.5	Landform and Soil	2-5
2.1.6	Hydrology	2-5
2.2	REGIONAL SETTING	2-6
2.3	NATURAL RESOURCES	2-8
2.3.1	Land Use	2-8
2.3.2	Food Crops and Agriculture	2-8
2.3.3	Livestock and Fishery	2-9
2.3.4	Forestry	2-10
2.3.5	Mining	2-11
SECTION 3.	INFRASTRUCTURE	
3.1	TRANSPORTATION	3-1
3.1.1	Land Transportation	3-1
3.1.2	Sea Transportation	3-2
3.1.3	Air Transportation	3-3
3.2	UTILITY AND OTHER INFRASTRUCTURE	3-6
3.2.1	Power Supply	3-6
3.2.2	Water Supply	3-8
3.2.3	Telecommunication	3-8

SECTION 4	DEVELOPMENT IN THE PROVINCE	
4.1	DEVELOPMENT POLICY AND STRATEGY	4-1
4.2	POPULATION AND LABOR FORCE	4-5
4.2.1	Labour	4-5
4.2.2	Labour Force.....	4-6
4.3	ECONOMIC GROWTH AND STRUCTURE	4-7
4.3.1	Economic Growth	4-7
4.3.2	Economic Structure	4-9
4.4	INTERNATIONAL TRADING	4-10
4.4.1	Exports	4-10
4.4.2	Imports	4-13
4.5	INDUSTRIAL SECTOR DEVELOPMENT	4-15
4.6	GENERAL POLICY OF FOREIGN INVESTMENT	4-16
4.7	TREND OF INVESTMENT	4-17
4.7.1	Domestic Investment	4-17
4.7.2	Foreign Investment	4-19
SECTION 5	POTENTIAL INVESTMENT IN THE PROVINCE	
5.1	POTENTIAL ANALYSIS	5-1
5.1.1	Prospects for Local Enterprise and Foreign Investment.....	5-1
5.1.2	Position of North Sumatra in International Trade ..	5-2
5.2	POTENTIAL SECTOR AND INVESTMENT OPPORTUNITIES	5-2
5.2.1	Primary Sector	5-2
5.2.2	Secondary Sector	5-7
5.2.3	Tertiary Sector	5-9
ATTACHMENT	A : A SHEET OF POTENTIAL PROJECT & A PROFILE OF LOCAL PARTNER	
	B : CAPITAL INVESTMENT PROCEDURE	

LIST OF TABLE

Table 2.1	The Land Area by Regency / Municipality	2-1
Table 2.2	Land Use in North Sumatra Province in 1996	2-8
Table 2.3	Planting Area and Production 1998	2-9
Table 2.4	Forest Area by Production in North Sumatra 1993-1996	2-10
Table 2.4	Forest Area by Function in North Sumatra 1995	2-10
Table 3.1	Rail Distances in North Sumatra	3-2
Table 3.2	Data on Port Facilities in North Sumatra	3-3
Table 3.3	Energy Sales, 1994-1998	3-6
Table 3.4	Power Forecasts, 1999-2004	3-6
Table 3.5	Proposed Power Generation Plants	3-7
Table 3.6	Expansion of Transmission Line and Main Power Station	3-7
Table 3.7	PDAM Potable Water Supply of North Sumatra Province	3-8
Table 3.8	Telecommunication Development in North Sumatra and Indonesia.....	3-9
Table 4.1	Population and Growth Rate in North Sumatra Province By Regency/Municipality in 1995 and 1998	4-5
Table 4.2	Number of Population by Age Group and Gender	4-6
Table 4.3	Number of Labour Force and Unemployment of North Sumatra Population By Education Level in 1998 (in thousand persons) ..	4-7
Table 4.4	GRDP of North Sumatra from 1994 to 1998	4-8
Table 4.5	Growth Rates of GRDP in North Sumatra and GDP for Indonesia, 1995-1998 At Constant Price	4-8
Table 4.6	Percentage GRDP Growth Rate according to Use (Including Migas: Petroleum and Gas) and Constant Price 1993, 1994-1997	4-9
Table 4.7	Economic Structure according to Sector, 1997-1998 (Current Price)	4-9
Table 4.8	Economic Structure according to Sector and Main Sector At Constant Price 1993	4-10
Table 4.9	FOB Export Value by Sector in 1990-1998 (US\$ x 10 ³)	4-11
Table 4.10	FOB Export Value by Main Commodities (SITC 3 Digits) in 1994-1998 (US\$ x 10 ³)	4-11

Table 4.11	CIF Value of Imports	4-14
Table 4.12	CIF Import Values according to Commodity (SITC 3 digits)	4-14
Table 4.13	Large and Medium-Scale Industries according to Industry Group, 1996-1998	4-15
Table 4.14	Output from Large and Medium-Scale Industries.....	4-16

LIST OF FIGURE

Figure 1.1	MAP OF STUDY LOCATION	1-3
Figure 2.1	ADMINISTRATION BOUNDARY MAP	2-2
Figure 2.2	INDONESIA-MALAYSIA-THAILAND GROWTH TRIANGLE ZONE (IMT-GT)	2-7
Figure 3.1	INFRASTRUCTURE MAP.....	3-4
Figure 3.2	RAILWAY TRACK LINE IN NORTH SUMATRA	3-5
Figure 4.1	GROWTH POTENTIAL ZONE	4-4
Figure 5.1	INVESTMENT OPPORTUNITY PROFILE IN NORTH SUMATRA PROVINCE	5-4

SECTION 1
INTRODUCTION

SECTION 1

INTRODUCTION

1.1 BACKGROUND

JICA and BPM-BUMN (The Investment Coordinating Board), through the JICA Advisor office in BPM-BUMN, retained PT. Mitrapacific Consulindo International to prepare a comprehensive investment opportunity study to identify potential sectors and projects for Japanese or other foreign investors in the province of North Sumatra. The study is based on locally available existing information together with information gathered in the field and identifies market sectors and any specific projects which have an investment potential.

A summary of this study was presented during the seminar and further detailed information of project profiles and available potential local partners are included in this report for inclusion on the website.

1.2 METHODOLOGY

Comprehensive information was collected and analyzed including natural resources, population, manpower, infrastructure, economic structure and growth and the present areas of development in the province.

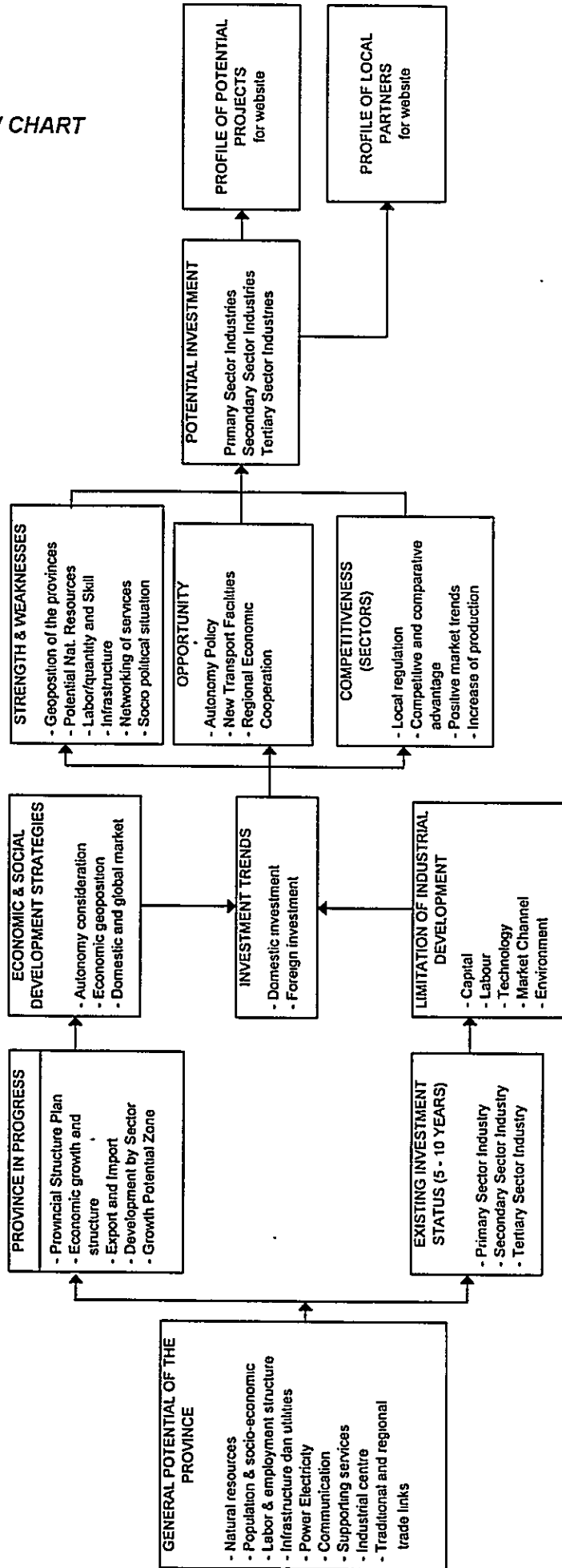
Future autonomy, including the possible role of the province relative to its economic geosition was also taken into consideration. At the same time, closer examination was made of previous domestic and foreign investment in the province taking into account the various indicators influencing the major trends of investment in the province.

Further strategic analyses and evaluations were completed for all sectors (primary, secondary and tertiary industry) of the provincial resources, including institution, regulation and market competitiveness, to determine the most appropriate sectors for Japanese (foreign) investment.

A diagram of the methodology adopted for this study is shown on Figure.

WORK PLAN & METHODOLOGY

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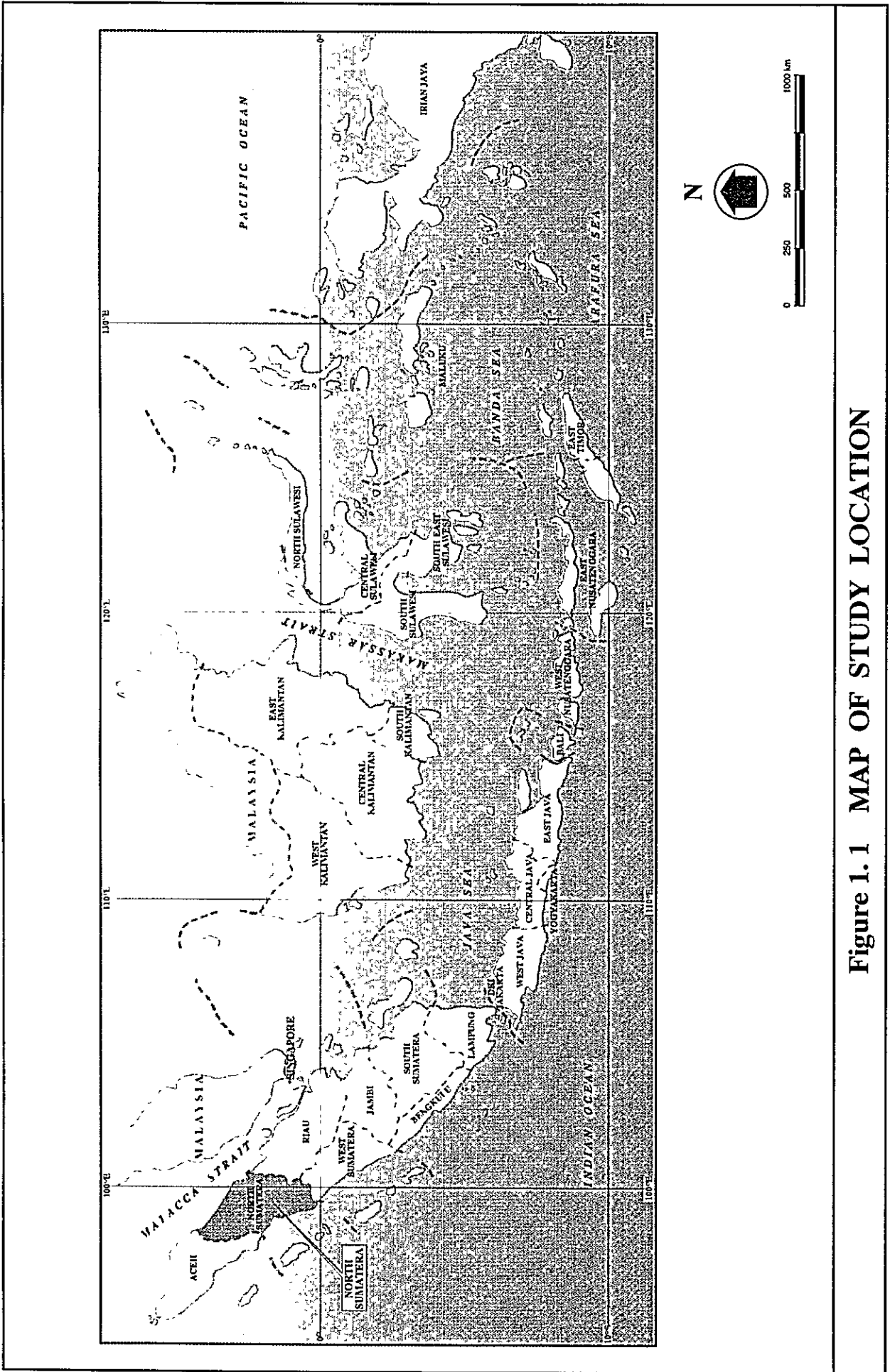


Figure 1.1 MAP OF STUDY LOCATION

SECTION 2
GENERAL CONDITIONS

SECTION 2
GENERAL CONDITIONS

2.1 PHYSICAL CHARACTERISTICS

2.1.1 Geography and Administrative Boundary

The province of North Sumatra is located near the northern end of the island of Sumatra between latitudes 1° to 4° north and longitudes 98° to 100° east.

It covers a land area of 71,680 km², which represents 3.72% of the total area of Indonesia, and includes 156 small islands on the west coast and 6 on the east coast.

The province has the following boundaries, which are also shown on the map included on Figure 2.1.

- Northern boundary with the province of Aceh
- Southern boundaries with the provinces of Riau and West Sumatra
- Western boundary with the Indian Ocean
- Eastern boundary with the Malacca Straits and Malaysia.

Administratively, North Sumatra is divided into the following 19 regencies or municipalities (17 prior to 1998):

Table 2.1
The Land Area by Regency / Municipality

No.	Regency / Municipality	Area (km)	Percentage of Total Area (%)
	Regency:		
1	Nias	5,318	7.42
2	Mandailing Natal	-	-
3	Tapanuli Selatan	18,897	26.36
4	Tapanuli Tengah	2,188	3.05
5	Tapanuli Utara	10,605	14.79
6	Toba Samosir	-	-
7	Labuhan Baru	9,323	13.01
8	Asahan	4,581	6.39
9	Simalungun	4,369	6.10
10	Dairi	3,146	44.39
11	Karo	2,127	2.97
12	Deli Serdang	4,339	6.05
13	Langkat	6,262	8.74
	Municipality:		
14	Sibolga	11	0.02
15	Tanjung Balai	58	0.08
16	Pematang Siantar	70	0.10
17	Tebing Tinggi	31	0.04
18	Medan	265	0.37
19	Binjai	90	0.12
	Total	71,680	100

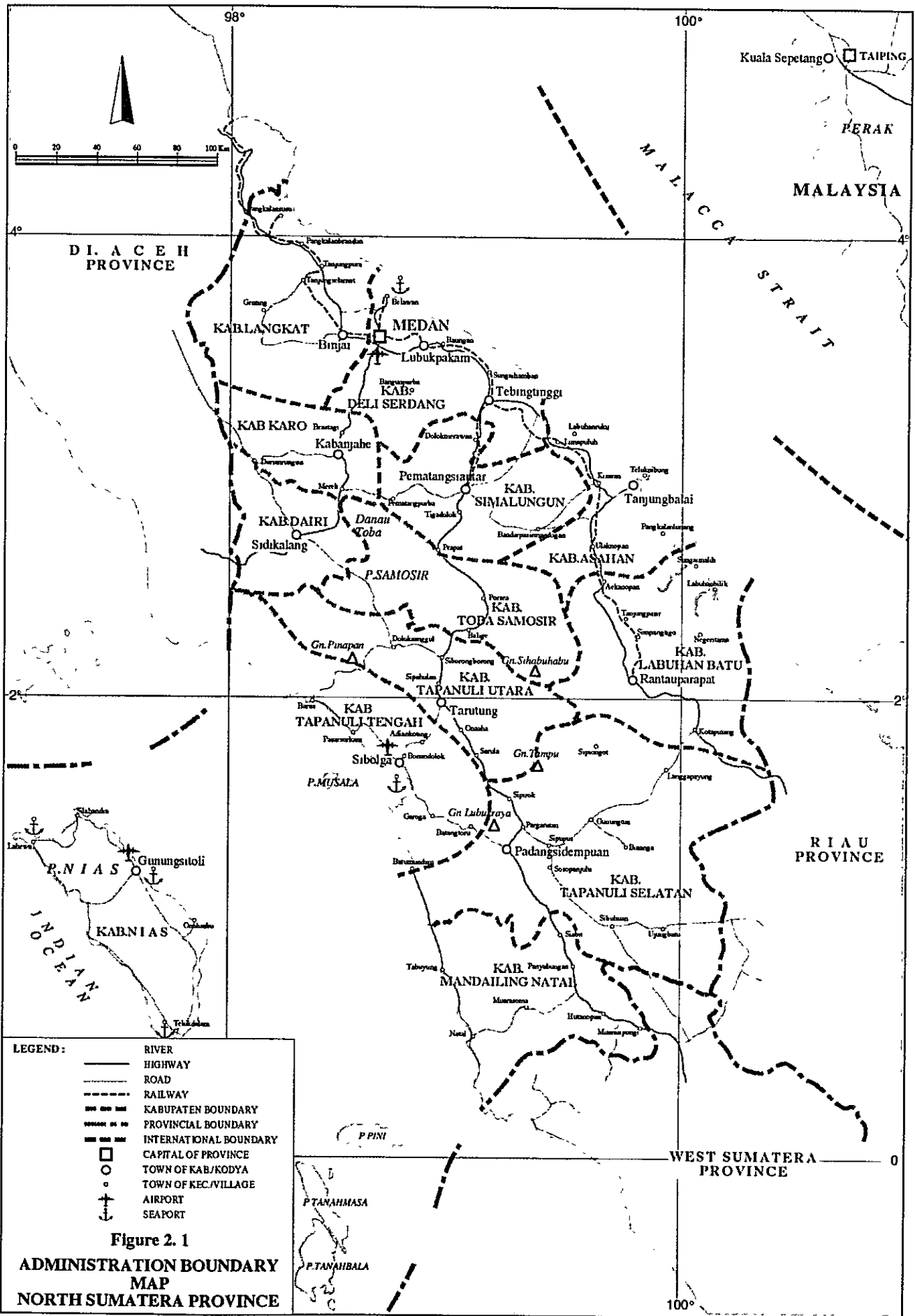


Figure 2. 1
**ADMINISTRATION BOUNDARY
 MAP
 NORTH SUMATERA PROVINCE**

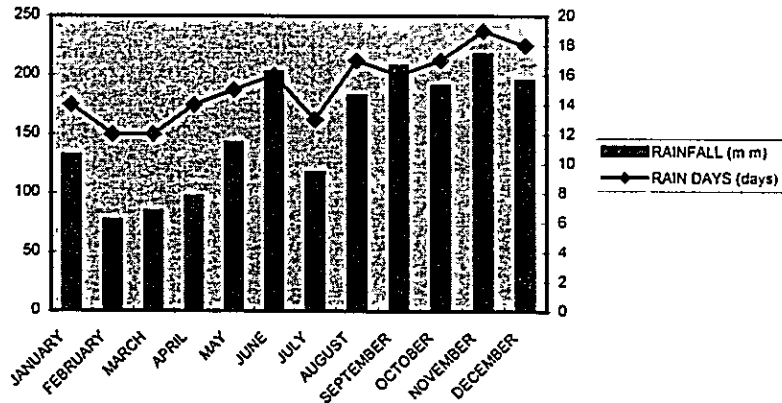
The provincial capital is the city of Medan situated in the north east corner of the province.

2.1.2 Climate

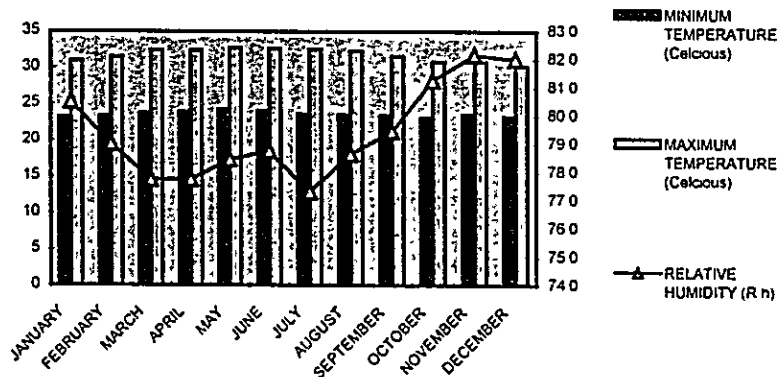
The temperature ranges between 18°C and 32°C according to altitude. The climate is divided into two seasons, the wet season is typically from September to February and the dry season is from March to August.

The average annual rainfall in the province is approximately 2,100 mm. Drier areas with an average rainfall of less than 1,500 mm per annum occur in Simalungun Regency and there are wetter areas, with a rainfall of 2,000 to 4,000 mm per annum in several parts of the province, including Asahan, Dairi, Deli Serdang, Karo, Labuhan Batu, Langkat, Bias, Central Tapanuli Regency and a large part of South Tapanuli. Some parts of Nias and Central Tapanuli Regency experience very high rainfalls of more than 4,500 mm per annum.

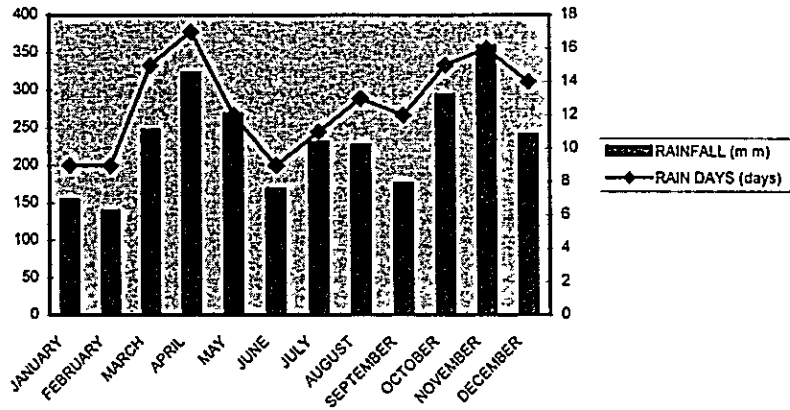
Rainfall and Rain Days in Medan



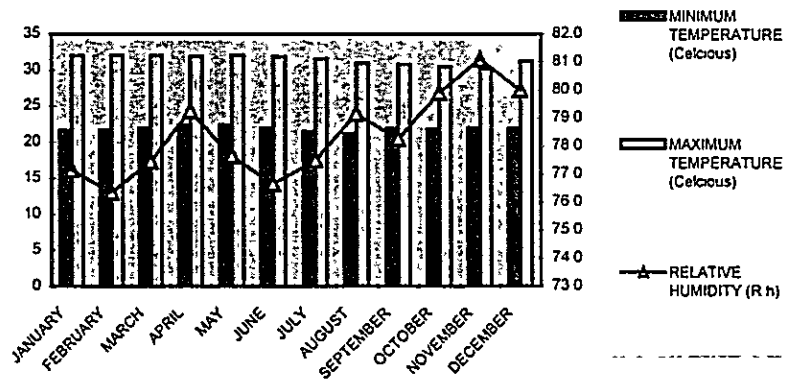
Average Minimum - Maximum Temperature and Relative Humidity in Medan



Rainfall and Rain Days in Sibolga



Average Minimum - Maximum Temperature and Relative Humidity in Sibolga



2.1.3 Topography

The eastern coastal belt consists typically of flat low land traversed by many rivers. The central area has hilly and mountainous terrain and forms part of the Bukit Barisan range. The western coastal strip is generally flat or gently undulating land.

2.1.4 Geology

The Bukit Barisan Mountains extend from the north to the south of Sumatra over a distance of 1,650 km and have an average width of approximately 100 km. The highest peak is Mt Merapi with an elevation of 3,895 m, which is located in West Sumatra. In North Sumatra, between the Wampu River and Barumun River, the mountains cover an oval area, in plan, which measures approximately 275 km on the N-S axis and 150 km on the E-W axis. The region has a typical volcanic appearance rising towards the central area known as "Batak Tumor". The area embraces a large caldera containing Lake Toba and Samosir Island.

A large part of the lowland along the east coast consists of river deposits (alluvial land), marshy areas, peat and brackish wetlands which contain mangrove swamps along the coast-line. Large rivers which flow to the east coast include the Wampu, Ulat, Padang, bah Balon, Silau, Asahan, Kualuh, Bilah and Barumun.

2.1.5 Landform and Soil

The dominant soil types are litosol, podzolic and regosol which cover approximately 1,601,600 ha and are suitable for plantation commodities such as rubber, oil-palm and other perennial crops. The principle soil types found in the province and their locations are summarized in the following table:

Type of Soil	Area of Province (%)	Location (Kabupaten)
Litosol, podzolic and regosol	22.34	Asahan, Dairi, Deli Serdang, Karo, Labuhan Batu, Langkat, Nias and South Tapanuli
Grey hydromorph, glei humus and regosol	11.54	Labuhan Batu, Langkat, South Tapanuli and Central Tapanuli.
Red, yellow podzolic	6.35	Asahan, Deli Serdang, Labuhan Batu, Langkat, Tebing Tinggi, Simalungun, South Tapanuli, central Tapanuli and North Tapanuli

2.1.6 Hydrology

Excluding the island of Nias, North Sumatra has more than 50 rivers, both large and small, which form 36 catchment areas DAS. Rivers which have the largest DAS areas are summarized as follows:

River	DAS Area (ha)
Wampu	426,416
Kuala	439,692
Bilah	326,200
Barumun	942,320
Barang Gadis	762,326
Rokan	293,708

Bah Bolon	189,010
Ular	142,055
Batang Serangan	164,900
Silan Tau	124,900
Padang	111,970
Besitang	140,005
Bah Hapal	102,805

Based on this information, North Sumatra has a great water resource potential and, to date, only a fraction of it is being utilized. The most likely uses would include irrigation, electric power generation and potable water.

Marine resources in North Sumatra are also under utilized, particularly in the Indian Ocean.

2.2 REGIONAL SETTING

North Sumatra has a strong trading role and relationship with overseas countries. It is part of international economic block agreements such as IMT-GT and ASEAN and exports to 27 countries and imports from 27 countries, including Asean countries.

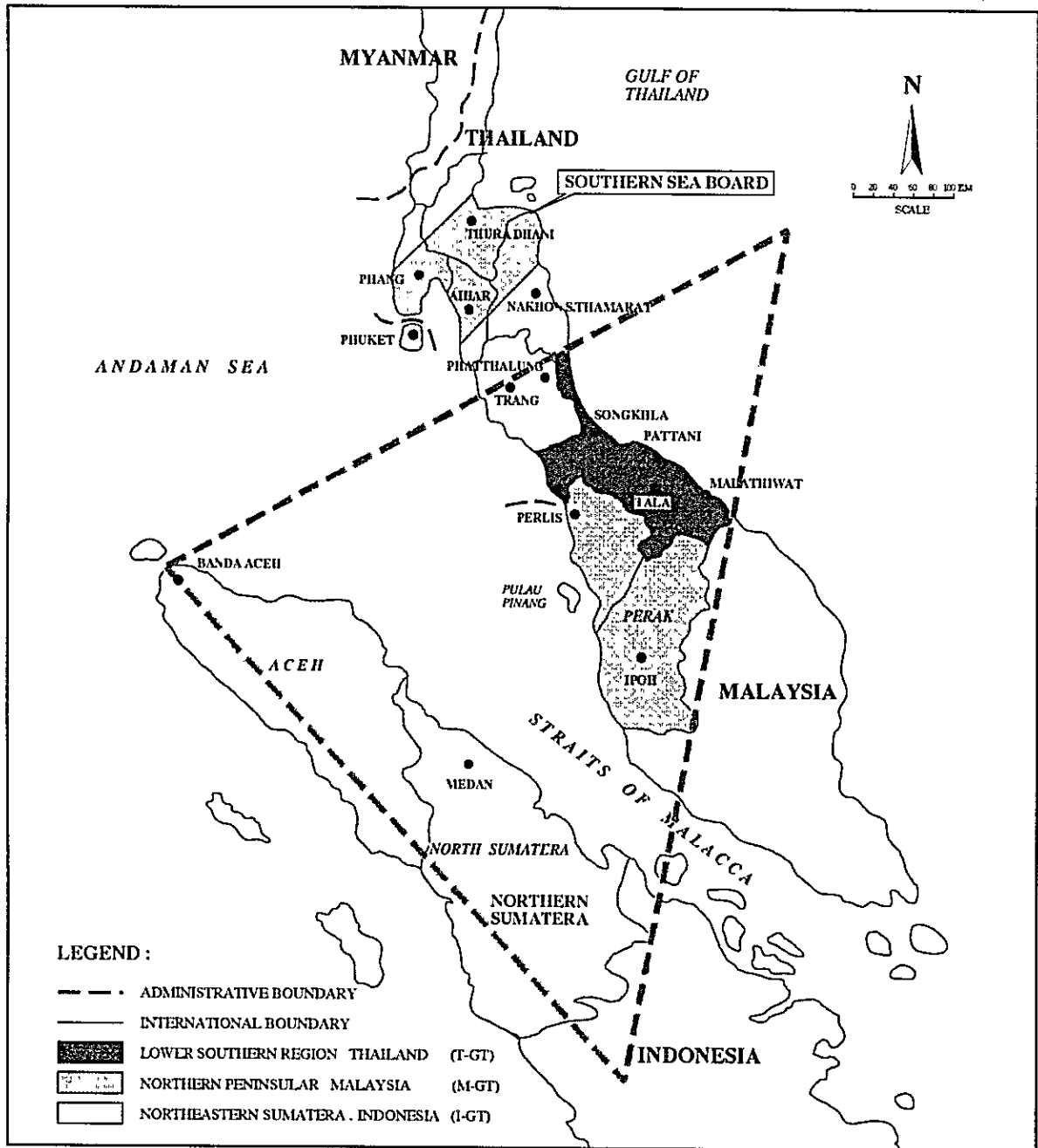
The IMP-GT block consists of an Indonesia-Malaysia-Thailand Growth Triangle whereby the three countries have agreed to establish a trilateral business investment in the member countries. The objective is implement projects which will stimulate economic growth. Memoranda of Understanding (MOU) have already been signed in 32 sectors and businesses and most of the projects are located in North Sumatra. The companies involved are typically from Malaysia and Indonesia and, out of the 32 MOU, Thailand are involved in only 5 projects.

Regional foreign trade with the rest of the world is one of the Keterbukaan Ekonomi "Economic Openness" indicators. Ultimately, therefore the final objectives of the IMP-GT cooperation are to:

1. Increase investment flow and trade among those three countries (sub-region)
2. Increase export from the IMT-GT region to the rest of the world
3. Increase the welfare of the sub-region respectively.

The success of IMT-GT is very important for the economic growth of North Sumatra and the trading block should be used to its fullest extent. However, up to 1996, trade from North Sumatra to Malaysia and Thailand was only 5%. This, according to research was partly because the commodities produced by North Sumatra were similar to those produced by its trading partners.

Figure 2. 2
 INDONESIA-MALAYSIA-THAILAND GROWTH TRIANGLE ZONE (IMT-GT)



2.3 NATURAL RESOURCES

2.3.1 Land Use

Land use in North Sumatra is varied and includes settlement, forests, ricefields transportation, grass land (padang ilalang), and plantations. The largest land use is for forestry and plantation which cover 2,631,950 ha and 1,361,473 ha respectively.

Table 2.2
Land Use in North Sumatra Province in 1996

No.	Land Use	Area (ha)	%
1.	Settlement	150,033.34	0.02
2.	Dryland agriculture	605,794.86	8.45
3.	paddyfield	481,013.22	6.71
4.	Plantation	1,361,473.27	18.99
5.	Fishery	14,050.82	0.20
6.	Transportation	17,861.02	0.25
7.	Forest	2,631,950.00	36.72
8.	Critical land	8,895.00	0.12
9.	Grass land	39,750.29	5.51
10.	Industry	12,186.92	0.17
11.	Open mining	547.00	0.01
12.	Waters	14,536.11	2.02
13.	Others	1,344,908.15	18.76
	Total	7,168,000.00	100.00

2.3.2 Food Crops and Agriculture

Crop production for 1998 is shown on the following table:

Foodcrop Production, 1998

Crop	Production (Tonne)	Main Production Centres
Paddy	3,144,227	Deli Serdang (21.15%) South Tapanuli (14.97%)
Corn	509,809	Kab. Karo (30.9%)
Peanut	26,037	Simalungun, Deli Serdang, North Tapanuli
Soybean	44,503	Deli Serdang, Langkat
Mug-bean	11,984	Deli Serdang, Simalungun

The main vegetables grown in the region are potatoes, cabbage, tomatoes, chilli, sawi (mustard greens), and carrot. Fruits which are grown in significant quantities together with the 1998 production, are shown on the following table:

Fruit	Production (tonne)
Banana	125,507
Orange	112,267
Durian	93,232
Salak	53,554
Pineapple	42,755

North Sumatra is one of the main plantation regions in Indonesia and the most important commodities are oil-palm, rubber, cocoa and tobacco. The plantations are either small-scale, state-owned (PTP) or private large-scale plantations and crop areas and production are presented on the following table.

Table 2.3
Planting Area and Production 1998

Type of Plant	Smallholder Estate		Private Estate		State Estate	
	Area (Ha)	Production (Ton)	Area (Ha)	Production (Ton)	Area (Ha)	Production (Ton)
Rubber	342,026	191,960	107,618	110,431	70,885	52,735
Palm Oil	153,825	1,491,872	300,594	888,385	241,136	868,168
Coffee	60,034	34,019	402	104	42	0
Coconut	152,652	109,076	5,041	3,738	0	0
Cocoa	24,074	13,122	11,236	13,267	23,806	22,648
Tobacco	341	142	0	0	2,485	1,471
Sugar Cane	1,915	18,662	0	0	16,380	91,567
Tea	1,388	967	0	0	8,283	19,913

2.3.3 Livestock and Fishery

The east and west coastal waters have a significant potential for sea fisheries.

In 1998, the total fish production of North Sumatra was 365,849 tonnes, which included 327,820 tonnes of sea fish and 38,011 tonnes of freshwater fish. Sea fish, therefore, accounted for 89.16% of the total production.

The greatest fish producing regions are Kabupaten Asahan with 72,820 tonnes (22.21%), and Kotamadya Medan with 54,052 tonnes (16.49%). The greatest of freshwater fish production came from Kabupaten Taopanuli Selatan and amounted to 11,856 tonnes (23.82%). The greatest fish producer from freshwater aquaculture was Kabupaten Deli Serdang with 10,066 tonnes (32.39%).

The total livestock populations, in 1998, are shown on the following table:

Livestock	Number
Cattle	
Horse	5,601
Cow	252,665
Buffalo	264,152
Goat	691,228
Sheep	159,491
Pigs	765,652
Poultry	
Battery chicken	949,277
Free range chicken	19,574,500
Duck	2,192,490

Cattle production was largely to meet domestic needs.

2.3.4 Forestry

Forest Production in North Sumatra 1993-1996

Table 2.4
Forest Production in North Sumatra 1993-1996

Products	Unit	1993/1994	1994/1995	1995/1996
Main Product				
Rimba Log	M3	987,312.95	1,094,176.05	606,172.61
Pine Log	M3	412,810.80	423,731.02	319,303.29
Sawmill	M3	100,307.11	129,630.59	111,418.51
Plywood	M3	441,989.47	442,919.05	400,727.95
Other Products				
Firewood	Tonne	-	-	17,687.91
Column	M3	2,334.38	2,147.51	1,947.63
Rattan	PCS	17,200.00	13,850.00	-
	Tonne	-	150,015.00	243,315.00
Tusam Oil		177,686.00	166,083.00	101,129.00

Table 2.5
Forest Area by Function in North Sumatra 1995

Function	AREA (Ha)
Animal Reserve	1,391,129
Conservation Forest	253,885
Limited Production Forest	1,349,886
Production Forest	531,548
Conversion Forest	253,684
Total	3,780,132

2.3.5 Mining

The following mineral deposits have been identified in North Sumatra:

Mineral	Location	Reserve	Remarks
Coal		1.707 million tons	4.7% of Indonesia total deposit
Diatomit	Danau Toba	25 million tons	SiO ₂ 84-92.5% BJ ₂ O ₃ 0.3-0.7
Feldspar deposits & Feldspar rocks	Simalungun	> 500 million tons	Potassium feldspar K ₂ O : 4.36-5.2% tufa riolit.
Marble & Onix	Kutabuluh, Dairi	1.55 million m ³	Suitable for ornament, young grey to pink.
Granite	North Tapanuli	n-d	(fine to coarse, young-grey to dark-grey)
Lime-stone deposits	Prapat and Balige	300 million tons 125 tons	Prapat: CaO:48-92-55,80% Balige: CaO:54, 60%.
Dolomite	Labuluh, Karo	35 million tons.	MgO: 19.65% hard and soft.
Pumice	Haranggaol and Asahan	>200 million tons	Size: 2.50-30.00 mm
Pearlite & Obsidian	Pansur Napitu	n-d	n-d

SECTION 3
INFRASTRUCTURE

SECTION 3 INFRASTRUCTURE

3.1 TRANSPORTATION

Land, sea and air transportation system are all available in North Sumatra.

3.1.1 Land Transportation

A. Highway

Road transportation is the main form of transportation in North Sumatra, linking cities, towns and villages and providing access to other provinces in Sumatra. Road transportation facilities are illustrated on Figure 3.1.

The total length of road in 1998 was 22,484 km. made up as follows:

- State Road : 917 km
- Provincial Road : 1,237 km
- Kabupaten/Kotamadya Road : 20,330 km

The length of each type of road construction is summarized as follows:

Construction	Length (km)
Asphalt	19,883
Gravel	3,198
Earth/Dirt	6,793
Not specified	1,610

The gravel and dirt roads are found mainly in the rural areas and regencies whereas in the city of Medan the entire road system of 2,351 km has been asphalted.

B. Railway

A rail service, centred on Medan, operates along the length of the eastern coastal region and connects most of the main cities and towns. The extent of the railway system is shown on Figure 3.2 and the distances between major centres are presented on the following table:

**Table 3.1
Rail Distances in North Sumatra**

No	From:	To:	Distance (km)
1	Medan	Tebing Tinggi	69
2	Medan	Pematang Siantar	127
3	Medan	Kisaran	152
4	Medan	Tanjung Balai	123
5	Medan	Rantau Prapat	266
6	Medan	Belawan	22
7	Medan	Binjai	21
8	Medan	Kuala	42
9	Medan	Tanjung Pura	67
10	Medan	P. Susu	111
11	Kisaran	Lubuk Pakam	123
12	Kisaran	Belawan	174
13	Kisaran	Kuala	194
14	Kisaran	P. Brandan	238
15	Kisaran	P. Susu	252
16	Rantau Prapat	Kisaran	114
17	Rantau Prapat	Tebing Tinggi	187
18	Rantau Prapat	Tanjung Pura	333
19	Rantau Prapat	P. Susu	377
20	Rantau Prapat	P. Brandan	25
21	Rantau Prapat	Belawan	133
22	Rantau Prapat	Pematang Siantar	238
23	Rantau Prapat	Tanjung Balai	284

3.1.2 Sea Transportation

Sea transportation in the province is used primarily for inter-island national, traffic. Belawan is a deep seaport for international shipping. Data on the ports is presented on Table 3.2.

**Table 3.2
Data on Port Facilities in North Sumatra**

No.	Name of Port	Dock				Warehouse		Container Yard		Passenger Terminal		
		No. of Unit	Length	Deep of Low Water Level	Deep of High Water Level	Total	Area	Total	Area	Total	Area	Total Capacity
			(m)	(M. Lws)	(M. Lws)	(Unit)	(m2)	(Unit)	(m2)	(Unit)	(m2)	(people)
1	Belawan	6	4,193.75	6.00	10.50	23	74,142	21	165,842	1	3,577	3,100
2	Pangkalan Susu	1	30.50	1.50	2.50	-	-	-	-	-	-	-
3	Kuala Tanjung	1	80.00	7.00	9.00	-	-	-	-	-	-	-
4	Tanjung Balai A	3	384.00	1.00	2.00	4	3,820	4	6,125	2	450	450
5	Sibolga	4	384.30	2.60	5.50	2	2,900	2	3,433	1	300	300
6	Gunung Sitoli	3	245.00	9.00	11.50	2	960	2	1,824	1	120	120
7	Pulai Kampai	1	50.00	1.50	3.00	-	-	-	-	1	150	150
8	Tanjung Pura	-	-	-	-	-	-	-	-	-	-	-
9	Pantai Cermin	-	-	-	-	-	-	-	-	-	-	-
10	Tanjung Berngin	1	20.00	1.00	3.00	-	-	-	9,850	1	1,100	100
11	Pangkalan Dodek	-	-	-	-	-	-	-	-	-	-	-
12	Tanjung Tiram	1	26.70	1.00	2.00	-	-	1	169	-	-	-
13	Leidong	2	121.50	2.00	3.00	-	200	1	1,200	1	100	100
14	Sei Berom	-	-	-	-	-	-	-	-	-	-	-
15	Tanjung S. Elang	2	121.50	-	-	-	-	1	1,200	1	300	300
16	Sikara-kara	2	82.50	2.00	5.50	-	-	-	-	-	-	-
17	Barus	-	-	-	-	-	-	-	-	-	-	-
18	Lahewa	1	60.00	3.00	4.00	1	200	-	-	1	100	100
19	Sirombu	1	41.00	4.00	5.50	-	-	-	-	-	-	-
20	Teluk Dalam	3	22.00	3.00	13.00	1	200	-	-	1	400	400
21	Pulau Telo	2	98.00	6.00	8.00	2	400	1	763	1	100	100

3.1.3 Air Transportation

Air transportation is served by three main airports, namely:

- Polonia in Medan
Class of the airport I
- Sibolga
Class of the airport IV
- Gunung Sitoli in Nias
Class of the airport III

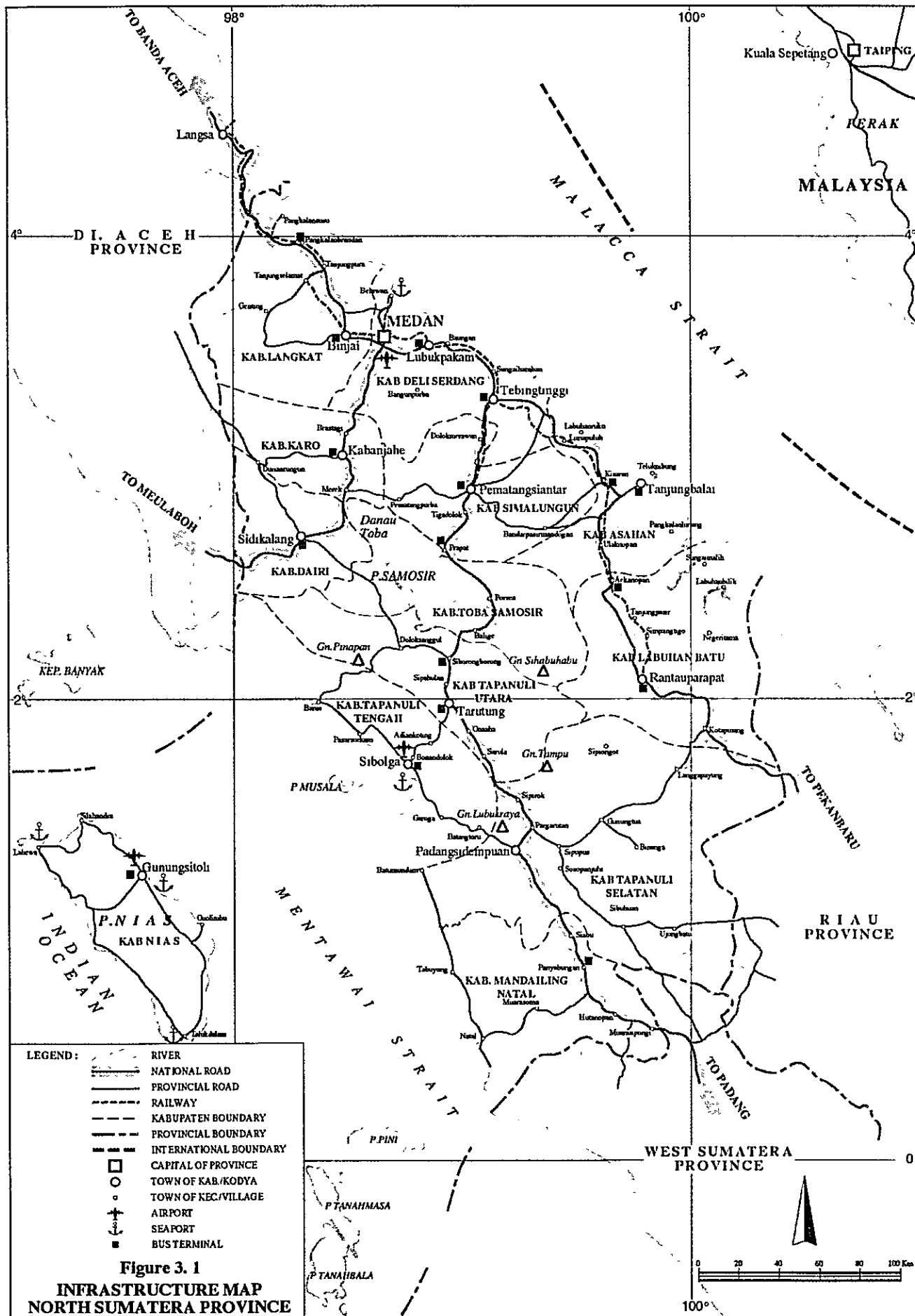
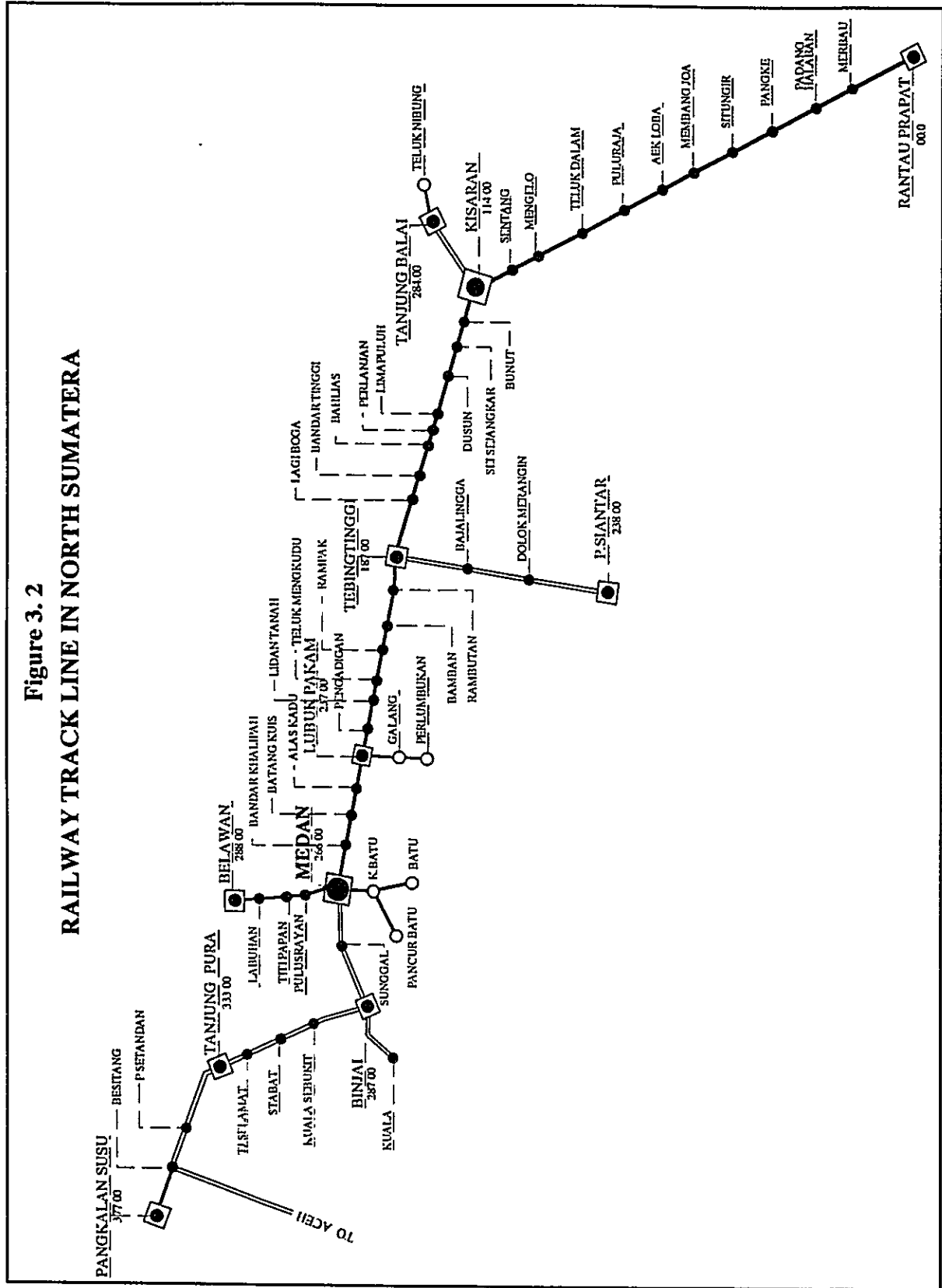


Figure 3. 2
RAILWAY TRACK LINE IN NORTH SUMATERA



3.2 UTILITY AND OTHER INFRASTRUCTURE

3.2.1 Power Supply

Electricity supply in North Sumatra is provided by PT. PLN (Persero) Wilayah II, which, also services the province of Aceh. Most of the electrical supply is connected to the grid system except for remote areas, such as the islands of Nias, Tello, Sembilan and Kampai which are still served by separate small electric power generators.

Prior to July 1999, PT. Inalum, a major aluminium company was purchasing 60 MW of power but now, since this stopped, the maximum demand load is only 716 MW (North Sumatra and Aceh).

The growth of energy sales between 1994 and 1998 was on average 13.2% per annum as shown Table 3.3 and forecasts of the power balance, customer requirements and energy sales are presented on Table 3.4.

Table 3.3
Energy Sales, 1994-1998

Sector	1994	1995	1996	1997	1998	until June 1999
Household	765.1	880.8	1,004.7	1,144.2	1,231.3	627.4
Business	159.0	203.7	241.6	291.8	338.1	416.6
Hotel	32.1	35.9	46.3	53.5	-	-
Industry	926.9	1,075.1	1,156.0	1,321.7	1,568.9	592.0
Public	147.4	157.4	161.2	184.3	199.0	97.9
Total	2,030.5	2,352.9	2,609.8	2,995.5	3,337.3	1,733.9

Table 3.4
Power Forecasts, 1999-2004

Description	1999	2000	2001	2002	2003	2004
Capacity (MW)	1,038	1,038	1,120	1,120	1,252	1,252
Maximum Capacity (MW)	769	805	854	907	962	1,021
Addition (MW)	-	-	82	82	132	132
Reserve (MW)	279	233	266	213	290	231
No. of Customer	1,686,486	1,765,486	1,850,486	1,940,486	2,030,486	2,120,486
Total MVA of Customer	18,211	1,881	1,946	2,016	2,091	2,171
Power Sold (MWH)	3,407,855	3,209,422	3,466,176	3,778,132	4,155,945	4,654,658

Source: Calculated from secondary data

The whole load in North Sumatra is served by 29 electrical relay stations. These are located in all regency/municipalities and distribute electricity through 1,845 kms of 150 KV transmission line. In 1998, the supply of electricity, from 13 main power stations, to Medan and its surrounding area absorbed 53% of the energy consumption from PLN Wil-II.

Separate, small-scale systems yet to be connected to the grid include:

- PLTD Teluk Dalam and Gunung Sitoli : 12 units / 8,360 KW
- PLTD P. Tello, Lahewa : 5 units / 500 KW
- PLTD Perlis, P. Kampai, P. Sembilan : 6 units / 417 KW.

In 1999, there were 1,685,000 customers, 94% of whom were residential. However, the largest consumer groups were industry and commerce and, in 1998, they accounted for 3,337 Gwh or 57% of the total energy sold in North Sumatra.

Proposals to expand the power supply system in North Sumatra are shown on Table 3.5 and Table 3.6.

**Table 3.5
Proposed Power Generation Plants**

No.	Description	Capacity	Operational Plan
1	PLTA Renun	2 x 41 MW	year 2001
2	PLTA Sipansihaporas	50 MW	year 2002
3	PLTD G. Sitoli	3 x 1.5 MW	year 1999

**Table 3.6
Expansion of Transmission Line and Main Power Stations**

No	Description	Capacity	Operational Plan
	<u>Transmission Line</u>		
1	Pht II Porsea – Tarutung	62 Kms	1998
2	Pht II Tarutung – Sibolga	50 Kms	1998
3	Pht Incomer Renun	75 Kms	2000
	Total	187 Kms	
	<u>Main Power Station (Gl)</u>		
5	Gl. Aek Kanopan	10 MVA	1999
6	Gl. Gunung Tua	10 MVA	1999
	Total	20 MVA	

Electricity supply in North Sumatra is faced with the following problems:

- (1) The community demands for electricity supply have not yet been fulfilled in accordance with regulations because of limited funding.
- (2) The selling price is less than the cost price
- (3) The overlapping land status causes difficulties with land acquisition, houses and crop acquisition during project implementation.
- (4) Compensation claims by the community because of the land used by PLN.
- (5) Theft of PLN equipment and material currently in operation, including the distribution system and transmission towers.

3.2.2 Water Supply

The potable water supply in North Sumatra is provided by Perusahaan Daerah Air Minum (PDAM) Tirtanadi and the locations and capacities of the supply systems are shown on Table 3.7.

Table 3.7
PDAM Potable Water Supply of North Sumatra Province.

No.	Location (Municipality/Regency)	Production Capacity (Litre/Second)	Installed Capacity (Litre/Second)	Supply Coverage
1	Medan	3880	3880	72
2	Tebing Tinggi	60	60	24
3	Binjai	30	50	13
4	Pematang Siantar	555	555	70.6
5	Tanjung Balai	114	114	52.7
6	Sibolga	105	105	52.6
7	Langkat	181.5	181.5	10.7
8	Deli Serdang	90	106	1.2
9	Karo	144	144	60
10	Dairi	50	50	57.7
11	Simalungun	183	183.3	4.3
12	Asahan	113	113	3.4
13	Labuhan Batu	60	80	30
14	Tapanuli Utara	104	104	4.7
15	Tapanuli Tengah	49.5	49	4.74
16	Tapanuli Selatan	140	140	5

Source: PDAM Sumatera Utara

PDAM Tirtanadi is attempting to expand the capacity in order to satisfy the demand particularly in the City of Medan and its surroundings and proposed additional facilities include construction of new processing units in the villages of Liman Manis and Tanjung Morawa by using water obtained from Belumai River. The initial installed capacity will be 500 l/sec. and the ultimate capacity will reach 3,000 l/sec.

3.2.3 Telecommunications

North Sumatra has an international gate central unit < Sistem Komunikasi Kabel Laut (SKKL), Sistem Komunikasi Satelit Domestik (SKSD), and Sambungan Langsung Jarak Jauh (SLJJ). Due largely to the private sector's role in developing telecommunication shops (Wartel) the telephone network system has been able to reach the rural districts.

Details of the main/customer telephone lines, domestic telegram service and domestic telex/interlink production in North Sumatra and Indonesia, as a whole are presented on Table 3.8

Table 3.8
Telecommunication Development in North Sumatra and Indonesia

No.	Telecommunication Type	1994	1995	1996	1997
1	No. of Telephone Line				
	North Sumatra	130,869	174,307	195,737	227,081
	Indonesia	243,967	3,214,404	4,112,533	4,856,096
2	Domestic Telegraph Production				
	North Sumatra	318,381	313,640	120,493	59,871
	Indonesia	10,158,086	5,278,192	5,449,665	2,988,808
3	Domestic Telex/Interlex Production				
	North Sumatra	32,841,341	28,292,181	26,137,141	18,593,140
	Indonesia	502,176,112	449,010,160	437,915,989	355,423,931

Source: *Statistic of Indonesia 1998 (BPS)*

SECTION 4
DEVELOPMENT IN THE PROVINCE

SECTION 4

DEVELOPMENT IN THE PROVINCE

4.1 DEVELOPMENT POLICY AND STRATEGY

Based on the 'Structure Plan' (RTRW) for North Sumatra, which considered the potential and spatial structure for the various regions, the province has been divided into the following development areas:

A. Development Area I

1. Kotamadya Tk. II Sibolga
2. Kabupaten Tk. II Tapanuli Tengah
3. Kabupaten Tk. II Tapanuli Selatan
4. Kabupaten Tk. II Nias

B. Development Area II

1. Kotamadya Tk. II Pematang Siantar
2. Kabupaten Tk. II Simalungun
3. Kabupaten Tk. II Tapanuli Utara
4. Kabupaten Tk. II Karo
5. Kabupaten Tk. II Dairi

C. Development Area III

1. Kotamadya Tk. II Medan
2. Kabupaten Tk. II Deli Serdang
3. Kabupaten Tk. II Langkat
4. Kabupaten Tk. II Binjai
5. Kotamadya Tk. II Tebing Tinggi

D. Development Area IV

1. Kabupaten Tk. II Asahan
2. Kabupaten Tk. II Labuhan Batu
3. Kotamadya Tk. II Tanjung Balai

The following areas of high potential growth have been identified:

1. Medan Area

Medan is located on the East Trans Sumatra Highway and is an established centre for economic growth and the collection and distribution of goods because of its strategic location and because it is the provincial capital. The area also has an established infrastructure, a variety of cultural riches and historical artifacts, and many natural resources. Towns included in this growth area include:

- Lubuk Pahan (Kab. Deli Serdang area)
 - Stabat
 - Pangkalan Brandan
 - Tanjung Pura
- Binjai
- Sidikalang (the capital of Kab. Dairi)
- Kabanjahe (the capital of Kab. Karo)

2. Rantau Prapat – Kisaran

This growth area is located in the south-east corner of the province and follows the road and railway in a linear configuration. Towns included in this area are:

- Rantau Prapat
- Penang
- Aek Kanopan
- Bandar Durian (included in Kabupaten Labuhan Batu with Rantau Prapat as the capital)
- Tanjung Balai
- Kisaran (Kab. Asahan)
- Kuala Tanjung (Kabupaten Simalungun).

The area has development potential for industry, fisheries, food crops, plantations, service and trade.

3. Lake Toba

This area is located in the central part of the province and includes the towns of:

- Prapat (Kabupaten Simalungun area)
- Balige
- Porsea
- Pangururan
- Siborong-borong
- Dolok Sanggul (Kabupaten North Sumatra area)

It has a diverse culture and natural beauty and is a recognized tourist area. The appeal of the cultural heritage, with its historic ceremonies and traditional houses, provides the potential for further expansion of the tourist industry. In addition, the land in this area is fertile and provides suitable conditions for plantation development.

4. Nias Island

This area covers Nias and the other islands on the west coast of North Sumatra. Nias has a highway which circumnavigates the island. The natural beauty of the coast line, marine life and culture of the area provide great potential for development of tourism.

This area also has an established plantation sector at Gunung Sitoli and is a centre for other adjacent areas. Towns, in this growth area include

- Gunung Sitoli (the capital of Kab. Nias)
- Teluk Dalam

5. Pematang Siantar

This area extends in a northeast to southwest direction along the road and railway corridor. It is flanked by three other growth areas and the Malacca Straits to the north. Towns in the area include:

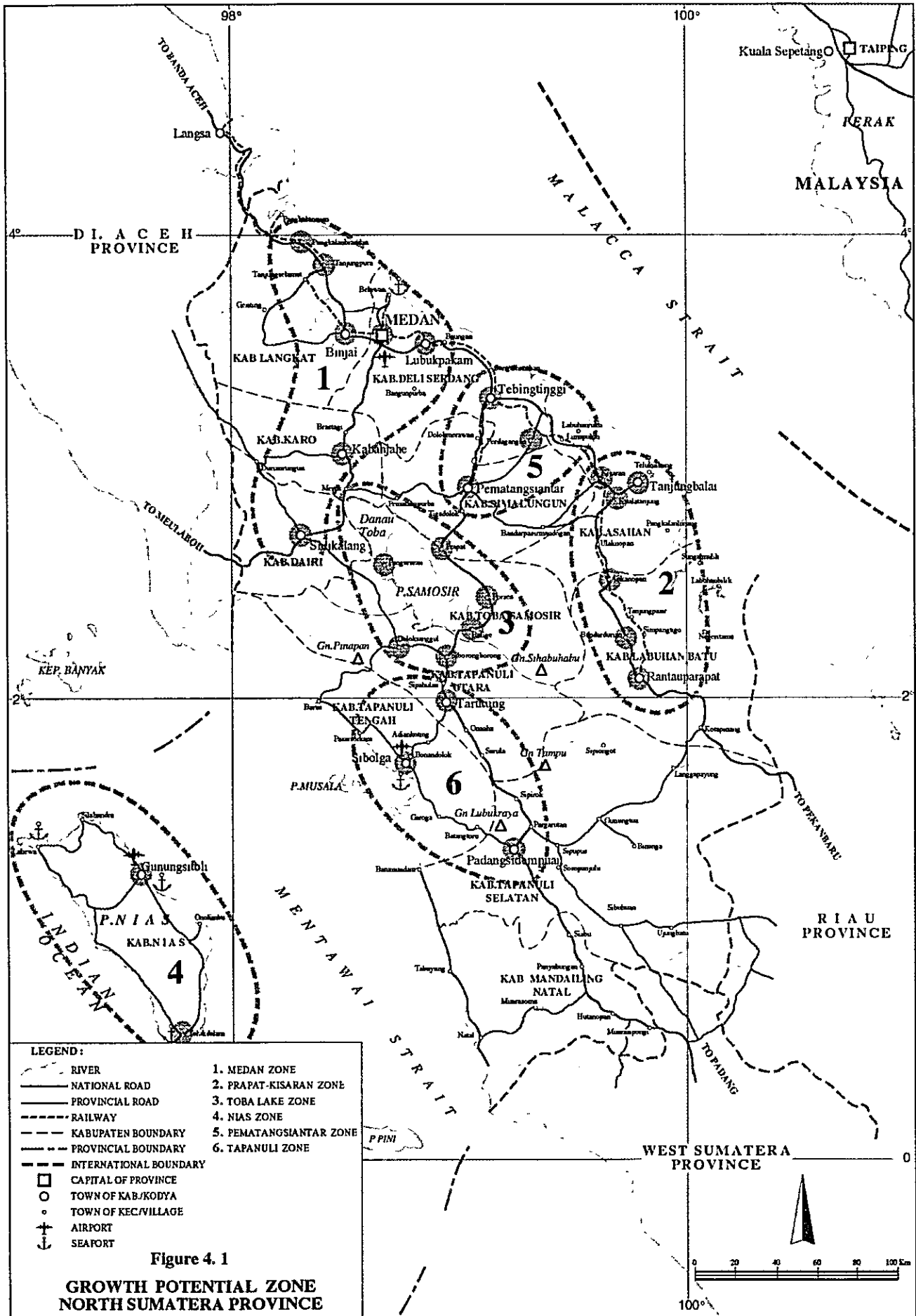
- Kodya Pematang Siantar
- Kodya Tebing Tinggi
- Kota Perdagangan (belongs to Kab. Simalungun area)

6. Tapanuli

This area is located in the southwest corner of the province and includes the towns of:

- Kodya Sibolga
- Kotif Padang Sidempuan
- Kota Baru (Kab. Tapanuli Utara)
- Kota Gunung Tua (Kab. Tapanuli Selatan)

The six growth areas and their mains urban centres are shown on the map included as Figure 4.1.



4.2 POPULATION AND LABOUR FORCE

4.2.1 Labour

At the end of 1999, the population of North Sumatra was 11,754,100. From 1995 to December 1999 the average population growth rate was 1.78% per annum and the population density was 164 per km².

Medan is the provincial capital and, with an area of 265 km² and a population of 2,028,300, is the largest city. The average population growth rate in Medan between 1995 and 1998 was 2.06%.

Table 4.1
Population and Growth Rate in North Sumatra
By Regency/Municipality in 1995 and 1998

No.	Regency/ Municipality	Population		Average Annual Growth (%)
		1995	1998	
1	Nias	648,100	688,400	2.03
2	Mandailing Natal	349,500	372,400	2.14
3	Tapanuli Selatan	707,000	753,300	2.14
4	Tapanuli Tengah	239,500	256,600	2.32
5	Tapanuli Utara	416,400	424,400	0.64
6	Toba Samosir	297,200	302,900	0.64
7	Labuhan Batu	836,300	906,600	2.73
8	Asahan	927,300	957,500	1.07
9	Simalungu	842,700	869,000	1.03
10	Dairi	291,700	302,000	1.16
11	Karo	274,800	286,300	1.38
12	Deli Serdang	1,791,600	1,920,000	2.33
13	Langkat	857,900	889,500	1.21
14	Sibolga	77,100	81,000	1.66
15	Tanjung Balai	113,400	117,300	1.13
16	Pematang Siantar	230,200	237,900	1.10
17	Tebing Tinggi	129,700	138,400	2.19
18	Medan	1,907,800	2,028,300	2.06
19	Binjai	206,100	222,300	2.55
	Sumatra Utara	11,144,300	11,754,100	1.78

Source : Susenas 1995 and 1998

The population is summarized according to age and gender on Table 4.2. The summary indicates that over 35% of the population is under the age of 15 and that the gender ratio, female to male, is 1.01%. Based on the information contained on the Table, it is apparent that North Sumatra has an abundance of human resources for the foreseeable future.

Table 4.2
Number of Population by Age Group and Gender

Age Group	Male	Female	Total
0 – 4	691,700	668,600	1,360,300
5 – 9	636,800	616,100	1,252,900
10 – 14	756,000	722,700	1,478,700
15 – 19	737,500	717,400	1,454,900
20 – 24	563,800	562,100	1,125,900
25 – 29	421,400	451,800	873,200
30 – 34	386,400	426,700	813,100
35 – 39	377,100	407,800	784,900
40 – 44	334,200	354,700	688,900
45 – 49	253,400	253,600	50,700
50 – 54	185,700	179,600	365,300
55 – 59	162,100	178,800	340,900
60 – 64	135,800	154,600	290,400
65 +	208,300	209,400	417,700
North Sumatra	5,850,200	5,903,900	11,297,800

Source : Population Projection 1990-2000, BPS North Sumatra.

The distribution of the population of the population shows that 58.13% live in rural areas and 41.97% in urban area.

4.2.2 Labour Force

Table 4.3 indicates the available workforce and unemployment levels, according to educational achievement. In 1998, the labour force, aged between 10 and 65 years of age, was 4,855,300. The highest number, representing of 37.30%, were in the 25 to 39 age group and the second highest, 27.03%, in the 40 to 54 age bracket. From the numbers aged between 25 and 54, it is evident that North Sumatra has large percentage of its population in the most productive age group.

The total labour force with education levels between elementary school (SD) and university level (Sarjana) was 5,224,000 and the actual number working was 4,855,300. The number currently seeking employment in this category was 371,700. Based on these figures the unemployment rate, in this category of the workforce was 7.1% whereas the total unemployment rate was 6.4%.

Table 4.3 also indicates that the greatest proportion of the workforce, 55.53%, only has an elementary education.

Table 4.3
Number of Labour Force and Unemployment
By Education Level in 1998 (in thousand persons)

No.	Education Level	Labour Force			
		Work		Unemployment	Total
		No.	%		
1.	Elementary School	2,696.1	55.53	110.0	2,806.10
2.	Junior High School	976.5	20.11	77.3	1,053.80
3.	Senior High School	1,005.2	20.70	154.4	1,159.60
4.	Diploma I & II	24.5	1.59	2.7	27.20
5.	Diploma III	52.4		8.6	61.00
6.	University	100.6	2.07	18.7	119.30
	Total	4,855.3	100	371.7	5,227.00

Source : BPS, Sumatra Utara

As a result of the poor educational levels, the majority of labour was employed in the unskilled to junior administration categories and only 3.66% were employed at the supervisory level.

4.3 ECONOMIC GROWTH AND STRUCTURE

4.3.1 Economic Growth

Before the monetary crisis, the economic growth of North Sumatra was greater than the national growth, as shown in the following table.

Year	Economic Growth (%)	
	Indonesia	North Sumatra
1995	8.22	9.09
1996	7.82	9.01
1997*	4.91	5.70

* Monetary crisis occurred in July.

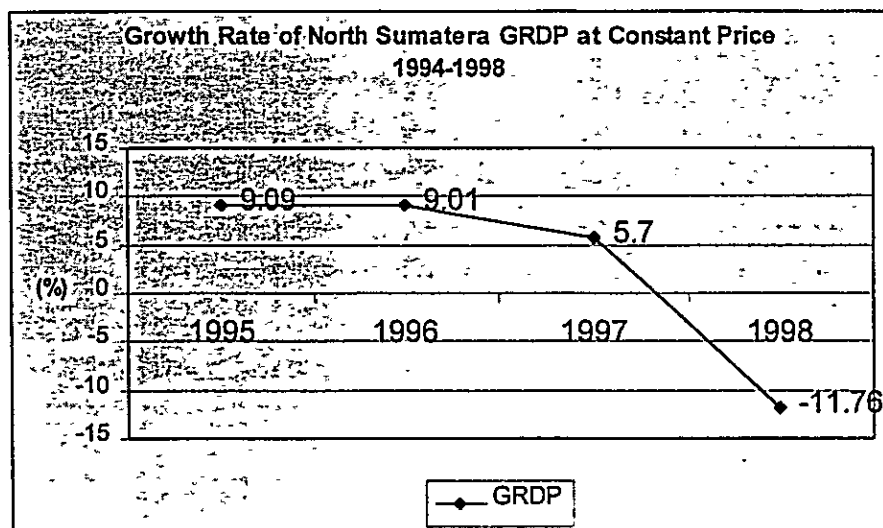
The monetary crisis in July 1997 caused negative economic growth in all sectors except gas, and potable water supply and the total provincial growth, at constant price, decreased to 11.76% by the end of 1998.

Table 4.4
GRDP of North Sumatra from 1994 to 1998

Year	G R D P				
	Current Price		Constant Price		Per Capita
	Amount (Billion Rupiah)	%	Amount (Billion Rupiah)	%	Amount
1994	21,701	-	19,942	-	1,991
1995	24,630	13.50	21,753	9.09	2,226
1996	26,173	14.35	23,714	9.01	2,505
1997	34,006	20.70	25,065	5.70	2,969
1998	48,331	42.13	22,118	-11.76	2,147

Table 4.5
Growth Rates of GRDP in North Sumatra and GDP
for Indonesia, 1995-1998
At Constant Price

Year	GRDP of North Sumatra (%)	GDP of Indonesia (%)
1995	9.1	8.3
1996	9.0	8.0
1997	5.7	4.7
1998	-11.8	-13.2
Annual Average Growth	2.6	1.6



The percentage economic growth of North Sumatra between 1994 and 1997 according to use is presented on Table 4.6.

Table 4.6
Percentage GRDP Growth Rate according to Use
(Including Migas: Petroleum and Gas)
and Constant Price 1993, 1994-1997

No.	Description of Use	Year			
		1994	1995	1996	1997
1.	Household	7.61	3.77	7.75	28.97
2.	Non profit private agency	12.95	10.31	16.92	6.06
3.	Government	3.68	5.27	2.96	17.72
4.	Capital Form	10.31	8.63	8.47	-24.48
5.	Change of Stock	-19.03	53.50	-31.07	47.89
6.	Export	16.91	9.60	16.37	-19.72
7.	Import	7.01	13.36	6.24	-6.16
	Total	39.44	104.44	27.64	50.28

The increase in growth rate for household consumption, from 7.15% in 1996 to 28.97% in 1997, was caused by the soaring price of basic needs after the monetary crisis in July 1997.

According to Table 4.6, the GRDP components included the export and import of goods and services. The growth of exported goods and services decreased from 16.37% in 1996 to 19.72% in 1997. Over the same period the growth of imports dropped from 6.24% to -6.16%.

4.3.2 Economic Structure

The GRDP of North Sumatra in 1997 and 1998 according to sector shown on Table 4.7.

Table 4.7
Economic Structure according to Sector, 1997-1998
(Current Price)

Sector	1997		1998	
	(Rp)	(%)	(Rp)	(%)
Agriculture	8,743,188	24.28	12,706,074	26.29
Mining & Quarry	469,096	1.30	818,284	1.69
Processing Industry	9,072,373	25.20	14,277,008	29.54
Electricity, Water & Gas	343,035	0.95	462,552	0.96
Construction	1,433,015	3.98	2,027,407	4.19
Trading, Hotel & Restaurant	8,688,499	24.13	9,851,636	20.38
Transportation & Communication	2,752,201	7.64	3,076,928	6.37
Finance & Company Services	2,297,192	6.38	2,551,975	5.28
Services	2,206,675	6.13	2,559,864	5.30
Total	36,005,274	100.00	48,331,728	100.00

Prior to 1993, the contribution from the agricultural sector was always the largest but from 1994 to 1998 the contribution from the processing industry was greater. This was caused by the rapid development of the processing industry and a shift from the agricultural sector to the manufacturing sector. The trade, hotel and restaurant sector remained the third greatest contributor and its contribution was 20.38% in 1998.

Based on the 1993 constant price, the contribution from each sector between 1993 and 1997 remained almost constant. The contribution from the agriculture sector tended to decrease very marginally up to 1997, but increased in 1998 from 26.95% to 29.98%. The industry sector was one of the sectors more affected by the economic crisis.

Based on the constant price, the primary sector showed satisfactory growth, increasing from 28.4% in 1997 to 31.36% in 1998, whilst the secondary and tertiary sectors decreased.

Table 4.8
Economic Structure according to Field of Business and
Main Sector At Constant Price 1993

Field of Main Business	Year					
	1993	1994	1995	1996	1997	1998
Primary	30.17	29.06	28.94	28.67	28.43	31.36
Agriculture	26.87	26.32	26.21	26.12	26.35	23.38
Mining	3.30	2.74	2.73	2.53	1.48	1.38
Secondary	30.13	29.51	29.47	29.69	29.70	28.31
Industry	24.61	24.22	24.25	24.29	23.66	23.30
Electricity, Gas, Water	0.93	0.91	0.96	1.00	1.31	1.56
Construction	4.59	4.38	4.26	4.40	4.53	3.45
Tertiary	39.70	41.43	41.59	41.64	41.87	40.33
Trading, Hotel, Restaurant	17.11	18.78	18.32	18.78	18.74	18.64
Transportation Communication	8.95	8.72	8.68	8.64	8.78	7.31
Finance, Rental, Company Services	6.56	6.86	7.09	7.19	7.18	7.21
services	7.08	7.07	7.00	7.03	7.18	6.57
Total	100.00	100.00	100.00	100.00	100.00	100.00

Source : Calculated from Secondary Data

4.4 INTERNATIONAL TRADING

4.4.1 Exports

Exports were primarily in the petroleum and gas, agriculture, mining and quarrying, and industry sectors. Between 1990 and 1996 exports were high with the largest exports in the industry sector which exported US\$ 12,67 million million (73.9%), followed by the agriculture sector with US\$ 4,326 million (25.2%). In 1998, all sectors, except petroleum and gas, experienced a decline in exports.

Table 4.9
FOB Export Value by Sector in 1990-1998 (US\$ x 10³)

Year	Petroleum & Gas	Agriculture	Mining & Quarry	Industry	Others	Total
1990	43,590	315,350	17	1,183,452	0	1,542,409
1991	36,758	386,999	33	1,368,210	0	1,792,000
1992	12,157	433,714	86	1,566,541	0	2,012,498
1993	9,768	432,097	1,628	1,783,728	1,157	2,228,378
1994	9,653	750,535	53	2,245,973	45,702	3,051,916
1995	0	1,008,944	585	2,657,523	29	3,667,081
1996	0	998,291	98	1,868,097	5	2,866,491
1997	0	891,707	759	2,252,560	5,199	3,150,225
1998	144	746,359	198	1,966,896	14	2,713,611

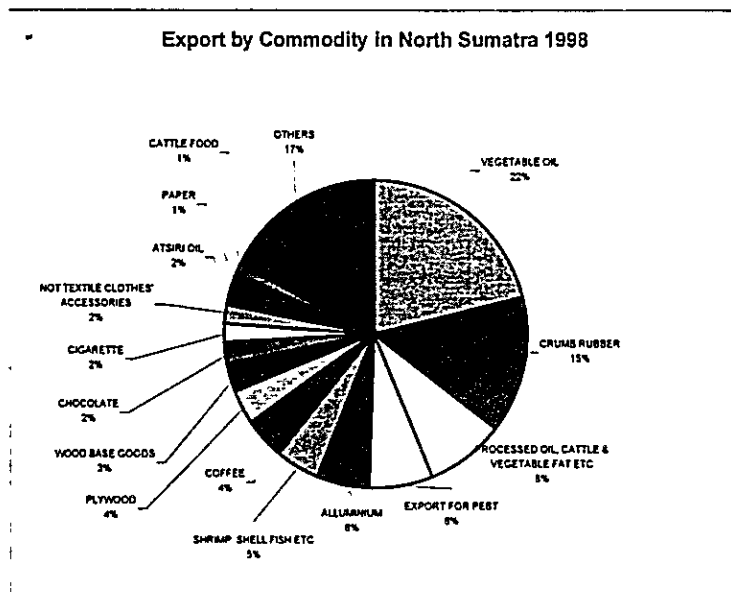
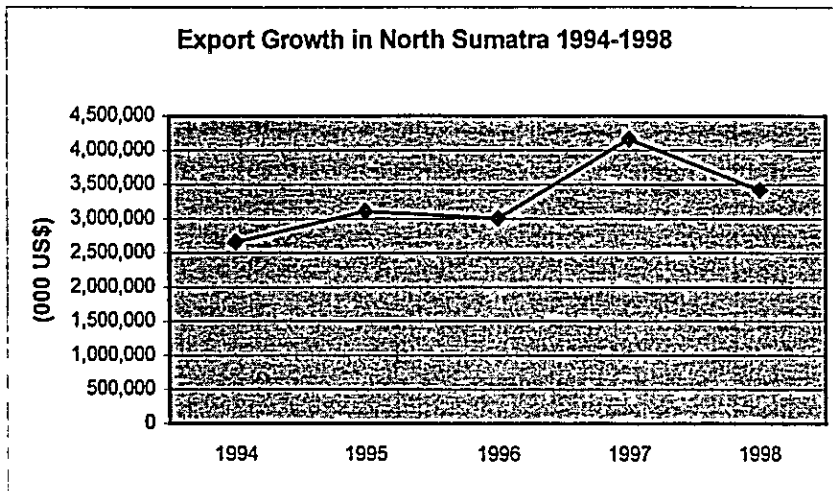
Source: Badan Pusat Statistik Sumatera Utara

The largest export commodity was vegetable oil, followed by natural rubber and aluminum goods. From 1994 to the end of 1997, the export value of most commodities increased significantly but, in 1998, the impact of the monetary crisis caused a drastic decline. There were some exceptions such as coffee, cocoa, garment accessories non textile, and atsiri oil which continued to increase in export value but, overall, the total export value in 1998 decreased by 8.1% from the previous year.

Table 4.10
FOB Export Value by Main Commodities (SITC 3 Digits) in 1994-1998 (US\$ x 10³)

SITC	Main Commodity	1994	1995	1996	1997	1998
422	Vegetable oil	613,614	562,500	613,595	984,519	563,430
231	Rubber	495,128	748,128	734,381	589,411	411,393
431	Processing oil, animal oil	128,640	1,170,204	106,512	41,874	221,370
921	Export for PEBT	-	-	-	122,776	164,463
684	Aluminium goods	195,423	322,888	252,677	259,946	156,414
036	Moluscas	167,281	175,763	174,104	167,228	137,179
071	Coffee	77,874	84,199	80,939	97,637	113,559
634	Plywood	187,311	204,284	203,649	180,418	97,176
635	Wood product	64,416	100,069	11,226	117,209	79,494
072	Chocolate	44,418	52,088	49,323	61,756	62,888
122	Cigarette	50,185	66,821	69,589	89,286	61,872
848	Cloth accessories	14,062	19,167	33,142	45,499	58,123
551	Atsiri oil	29,074	24,867	23,592	35,683	54,013
251	Pulp	61,526	74,263	39,281	76,561	36,616
081	Cattle food	49,479	40,114	53,174	27,070	30,784
	Others	480,925	461,001	557,213	54,668	464,837

Source: Badan Pusat Statistik Sumatera Utara



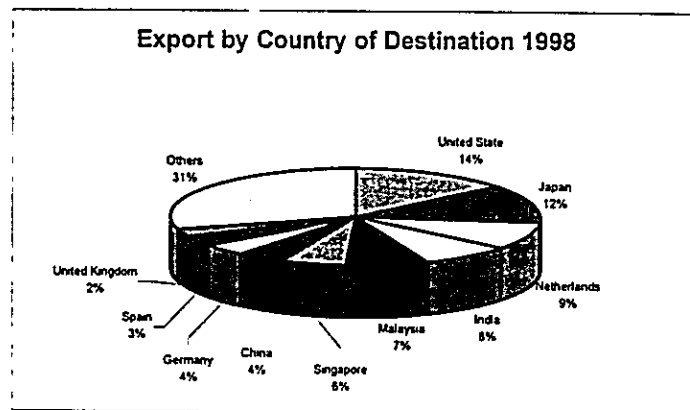
From 1994 to 1998, the largest FOB exports, according to region of destination, were Asia 33.60%, Western Europe 17.91%, North America 14.27% and ASEAN countries 13.96%.

From 1994 to 1998, the countries receiving the greatest value of exports from North Sumatra were Japan US\$ 2,545 million (16.9%), United States US\$ 1,995 million (12.9%), Netherlands US\$ 1,650 million (11%), Malaysia US\$ 795 million (5.3%) and Singapore US\$ 740 million (4.9%).

In 1998, the USA surpassed Japan as the largest country of destination for exports, as shown on the following table.

No.	Country	1998 (US\$ x 10 ³)	%
1	United States	380,432	14.01
2	Japan	339,055	12.49
3	Netherlands	248,407	9.15
4	India	212,818	7.84
5	Malaysia	199,207	7.34
6	Singapore	159,646	5.88
7	China	111,398	4.10
8	Germany	108,035	3.98
9	Spain	87,988	3.24
10	United Kingdom	64,564	2.38
11	Others	802,060	29.54
12	Total	2,715,608	100.00

Source: BPS of North Sumatra Province



4.4.2 Imports

From 1994 to 1998, the CIF import value was US\$ 7,987 million and had a net weight of 15,464,608 tonnes. Between 1990 and 1996, the value of imports increased continuously but this trend was reversed by the economic crisis in 1997 and the value dropped by 40.5%. Import values for the period 1990 to 1998 are shown on Table 4.11 and the largest CIF value of imports was material for manufacturing and processing which amounted to US\$ 4,798 million (60.08%), followed by capital goods with US\$ 2,204 million and consumption goods with US\$ 985 million.

Table 4.11
CIF Value of Imports

Year	Capital Goods	Raw Material	Consumption Goods	Total
1990	128,034	684,163	11,226	823,423
1991	182,365	588,507	27,080	797,952
1992	229,549	645,611	32,886	908,046
1993	385,785	504,554	66,612	956,951
1994	379,192	491,856	119,832	990,880
1995	240,584	589,512	184,127	1,014,223
1996	241,853	560,226	260,805	1,062,884
1997	294,989	528,032	201,538	1,024,559
1998	121,586	205,887	80,927	408,400

Between 1995-1998, the greatest import commodity was artificial fertilizer with a CIF value of US\$ 171 million, followed by cattle food US\$ 159 million and steel plate US\$ 108 million.

Table 4.12
CIF Import Values according to Commodity (SITC 3 digits)

SITC	Main Commodity	1996	1997	1998
	Capital Goods	241,853	294,989	121,586
728	Machinery & tools	34,209	27,042	12,007
791	Train	5	361	11,780
741	Heater & cooler	11,112	12,089	10,804
727	Food processing machine	973	27,041	7,285
778	Electric tools	18,194	11,938	6,464
	Others	168,660	216,518	7,346
	Material Goods	560,226	528,032	205,887
285	Bauxite	56,254	18,318	28,764
562	Fertilizer	86,340	68,953	15,685
522	Chemical product	25,166	31,619	11,752
335	Petroleum residue	32,209	12,318	10,390
673	Steel plate	51,161	47,728	9,028
	Others	309,096	349,096	130,268
	Consumption Goods	260,805	201,538	80,927
081	Cattle food	70,689	69,990	17,187
042	Rice	89,381	4,223	12,968
121	Tobacco	20,799	24,692	9,136
054	Vegetable	9,232	6,356	8,542
684	Aluminium goods	12,323	18,769	8,151
	Others	58,381	77,688	25,663
	Total	1,062,885	1,024,559	408,401

Source: BPS Sumatera Utara

The greatest value of imports to North Sumatra was from Japan followed by the USA.

4.5 INDUSTRIAL SECTOR DEVELOPMENT

The main industrial groups in North Sumatra Province include:

1. Food, beverage and tobacco
2. Textile, garment and leather
3. Timber, furniture
4. Paper industry, printing and publishing
5. Chemical industry, coal, rubber and plastic
6. Mineral industry non metal, except petroleum and coal
7. Base metal
8. Metal goods, machinery and equipment.

These industrial groups typically consist of medium and large scale operations. In 1996, these companies numbered 1,158 but this decreased to 1088, in 1997, and 1,025, in 1998, due to the economic crisis. The number of medium and large scale operations in each industry group is presented on Table 4.13.

Table 4.13
Large and Medium-Scale Industries according to Industry Group, 1996-1998

No.	Industry Group	1996	1997	1998
1	Food & Tobacco Industry	448	422	404
2	Textile & Leather Industry	92	88	79
3	Wood & Furniture Industry	150	141	136
4	Paper, Printing & Publisher Industry	44	41	38
5	Chemical, Coal, Rubber & Plastic Industry	210	195	187
6	Non Metal Quarry Goods except Petroleum & Coal	6	49	44
7	Basic Metal Industry	15	2	15
8	Metal Goods & Machine Industry	132	120	108
9	Other Manufacturing Industry	11	11	11
	North Sumatra	1,158	1,088	1,025

Source: Badan Pusat Statistik

The number of industries decreased by 6.04% from 1996 to 1997 and by 5.79% from 1997 to 1998. The Regencies/Municipalities with the highest number were Deli Serdang, Medan and Asahan. Based on Table 4.13 the highest number was in the food, beverage and tobacco industry.

The output value from North Sumatra industries is shown on Table 4.14. The total output value continuously decreased between 1996 and 1998 largely because a number of industries closed their operations in those years. The food, beverage and tobacco industry produced the highest value of goods followed by the chemical industry group.

Table 4.14
Output from Large and Medium-Scale Industries

No.	Industry Group	1996	1997	1998
1	Food & Tobacco Industry	4,963.36	6,441.35	11,123.78
2	Textile & Leather Industry	130.01	144.22	170.70
3	Wood & Furniture Industry	809.99	952.82	1,571.70
4	Paper, Printing & Publisher Industry	776.99	561.93	780.92
5	Chemical, Coal, Rubber & Plastic Industry	2,297.46	2,450.68	6,370.55
6	Non Metal Quarry Goods except Petroleum & Coal	151.20	148.51	216.18
7	Basic Metal Industry	1,064.88	1,375.81	2,144.56
8	Metal Goods & Machine Industry	568.80	354.59	568.03
9	Other Manufacturing Industry	2.50	2,376.00	5.51
	North Sumatra	10,765.19	14,805.91	22,951.93

Source: *Badan Pusat Statistik*

4.6 GENERAL POLICY OF FOREIGN INVESTMENT

In May 1998, the Government of Republic of Indonesia introduced a new set of policies for private investment, known as the New Reformation Policies. These include the following policies:

- (1) The delegation of authority from the President of the Republic of Indonesia to the Minister of Investment/Chairman of the Investment Coordinating Board (BKPM) to issue foreign investment approval up to US\$ 100.0 million.
- (2) The delegation of authority from the Minister to Provincial Governor/Chairman of Regional Investment Coordinating Board (BKPM) to issue domestic investment approvals.
- (3) Re-instating of 'one roof services' in the office of Ministry of Investment/Investment Coordinating Board (BKPM). With the reformation policy, investors should not go to various government institutions, the approval or licensing either at preparation or implementation stage will be issued by the office of Ministry of Investment/Investment Coordinating Board (BKPM).
- (4) Re-instating of the 'one roof services' at the Second Level Region/Regency to issue local permits such as building, nuisance and location permits. The service is provided under the coordination of Bupati (Head of Second Region Government), where each Technical Department/Institution is stationed in the building.
- (5) The deletion of the Principle Approval which is normally issued by the Governor of Provinces before the investor commenced implementation or construction of the project.

- (6) The deletion of all types of recommendation letters from the Technical Department/Directorate General Offices to the Investment Coordinating Board before project applications can be processed.
- (7) The transferring of Environmental Impact Analysis' appraisal (AMDAL) from AMDAL Commission in Jakarta (Central Government) to the Regional AMDAL Commission.
- (8) In order to make the tax incentive policy, based on the Government Regulation No. 45/1996, clear and transparent to the public, the domestic and foreign investors, the criteria for such tax incentives will be established under Presidential Decree. The criteria will include investment priority sectors, strategic role in economic development, market orientation, location, applied technology, investment risk etc.
- (9) Regarding the choice of project location, foreign investors may choose whether to locate their project on an industrial estate or in an industrial zone. In order to locate the project in an industrial zone, the foreign investor must use the regional spatial development plan as guidance.
- (10) In order to widen opportunities to foreign investors and improve competitiveness among ASEAN countries, Indonesia has opened retail and wholesaler trading and palm oil sectors to foreign investment.
- (11) The investment licensing/approval services in the Office of Investment Coordinating Board are also being streamlined. The time-frame to issue foreign investment approvals has been reduced from 42 days to only 10 working days. Other implementation permits will be finalized between 4 to 10 working days.

4.7 TREND OF INVESTMENT

4.7.1 Domestic Investment

During the past 10 years, 220 PMDN projects, were approved including 46 primary, 124 secondary and 50 tertiary sector projects. The most important sub sectors were as follows :

Sub Sector	Number of Projects
Food Industry	58
Plantation	28
Hotel land Restaurant	22
Chemical Industry	20
Timber	12

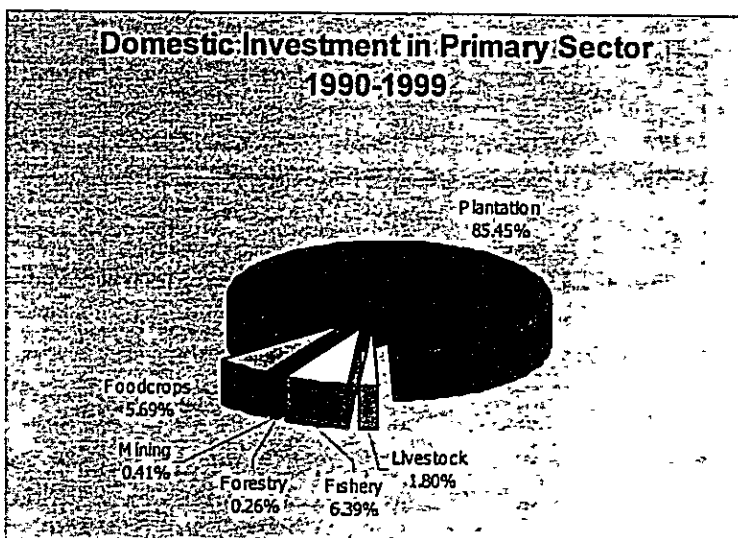
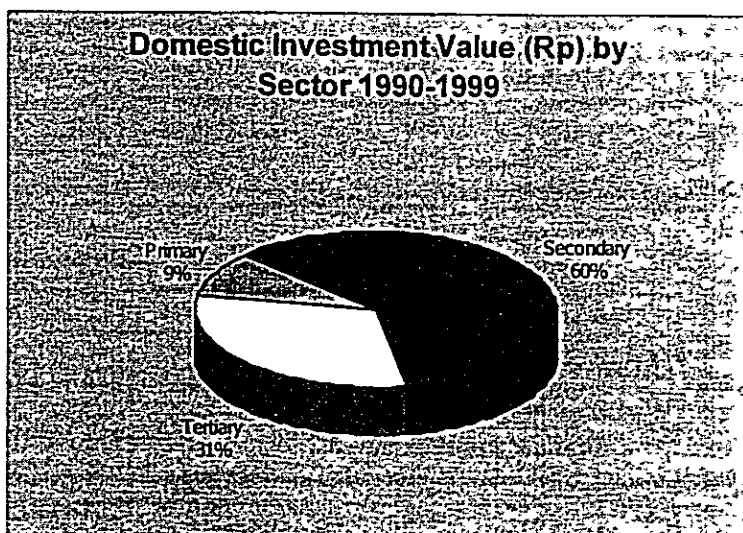
The number of PMDN (domestic investment) projects decreased drastically in the last 2 years to 9 projects in 1998 and only 3 projects in 1999.

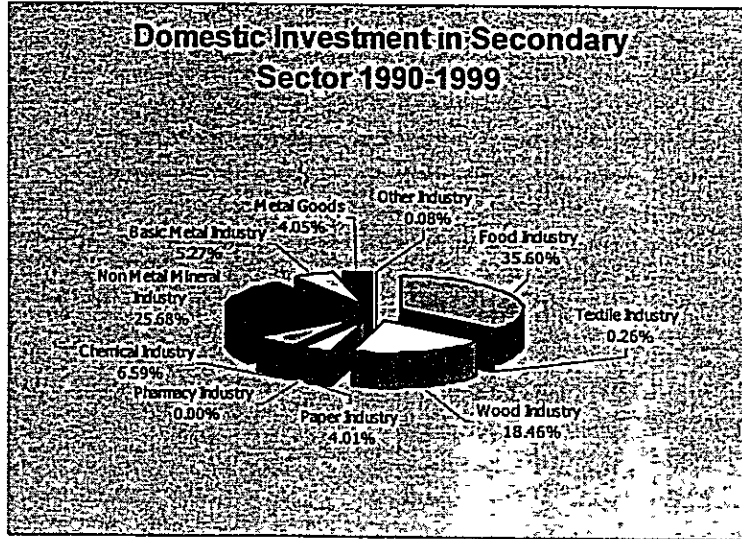
The total value of the PMDN projects during the past 10 years was Rp.15,531,836 million made up as follows:

Sector	Amount (Rp. Million)	%
Primary	1,397,874	9
Secondary	9,313,101	60
Tertiary	5,820,861	31
Total	15,531,836	100

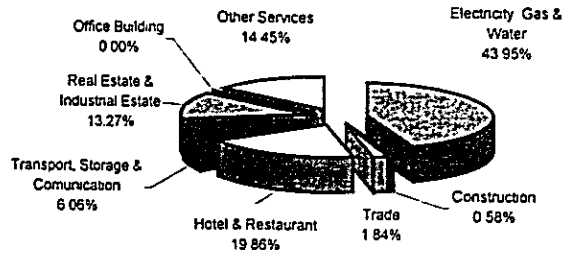
The major contributions were :

Sub Sector	Contribution (Rp. Million)	%
Food Industry	3,325,592	21.4
Non-Metal Minerals	2,398,630	15.4
Electricity, gas and water	2,086,948	13.4





Domestic Investment in Tertiary Sector 1990-1999



4.7.2 Foreign Investment

During the past 10 years, there were 142 projects including 14 primary, 90 secondary, and 38 tertiary sector projects. The most important sub sectors were as follows:

Sub Sector	Number of Projects
Chemical Industry	21
Timber	20
Food	17
Metal Industry	16

Whilst the number of PMDN projects decreased in 1997-1999, the number of PMA projects increased from previous years.

The total value of PMA projects was US\$ 6,727 million made up as follows:

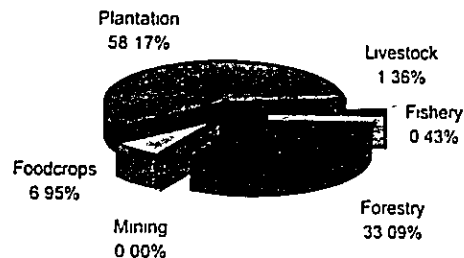
Sector	Amount (US\$ million)	%
Primary	410	6.1
Secondary	5,261	78.2
Tertiary	1,056	15.7
Total	6,727	100

The largest contributor was the chemical industry with US\$ 3,566 million representing 38.14%.

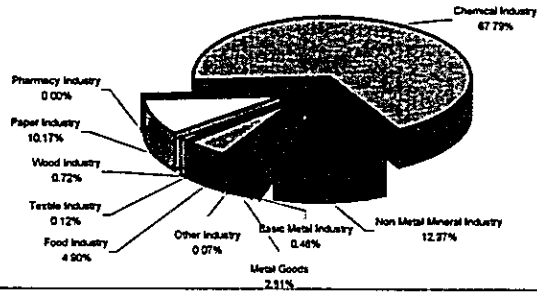
Foreign Investment Value by Sector 1990-1999



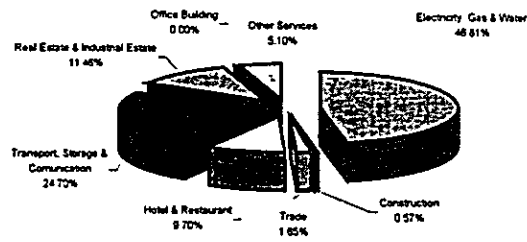
Value of Foreign Investment in Primary Sector 1990-1999



Value of Foreign Investment in Secondary Sector 1990-1999



Value of Foreign Investment in Tertiary Sector 1990-1999



SECTION 5
POTENTIAL INVESTMENT IN THE
PROVINCE

SECTION 5 POTENTIAL INVESTMENT IN THE PROVINCE

5.1 POTENTIAL ANALYSIS

5.1.1 Prospects for Local Enterprise and Foreign Investment

The regional economic crisis has had a severe impact on the private sector in Indonesia, particularly for large enterprises whose production is largely dependant on imported raw material and foreign currency investment. This condition is more acute if the production is solely for the domestic market. On the other hand small and medium export oriented resource-based industries, particularly agriculture, fisheries and forestry, have benefited significantly from high foreign currency rates. Based on past growth and survival and the challenge to increase capacity and enter the competitive market, the following types of local enterprises are considered:

- (1) Smaller enterprises registered with PMDN which are largely engaged in primary resource industries (agriculture, forestry, fisheries and handicraft), employing a limited number of workers and oriented primarily to the export market. Technological input is primarily required by these business units to improve their product and quality.
- (2) Medium sized enterprises registered with PMDN from various sectors of manufacturing and services, employing a larger number of workers and aiming their products to both the export and domestic markets. These business units may require both capital and technology to expand their production and improve quality.
- (3) Large enterprises registered with PMDN which are involved with the primary resources industry, manufacturing industry or services and employ large numbers of workers and produce for the export market. These business units may require capital investment, technology to support their research and development, and a worldwide marketing network. Foreign investment is particularly important to increase the ability of local enterprise to compete in both the global and regional markets. Therefore, integrated investment programs are required which include capital, technology and market components.

The following clauses describe the most favourable climate for joint investment between local and foreign (Japanese) companies:

- (1) Investment in small or medium sized operations who need technology input to develop and process their primary industry (eg. agriculture, forestry, fisheries) into value-added products or secondary industry (eg. food).
- (2) Investment should support local enterprise with their export drive of commodities (to Japan or other countries); this can also have a ripple effect and generate other economic activities.

For example, collecting forest products (kemiri, gambir, pinang, cassiavera) may not be attractive for foreign investment unless there is a value-added component

to produce secondary industrial products (cosmetics, essential oil etc) because the supply of primary forest products are always sensitive to the fluctuation of market price.

- (3) Investment in larger plantations is attractive, since the input of technology and capital can facilitate development of secondary industry which involves the manufacture of value-added products such as olefin, margarine, rubber goods, and tyres.
- (4) In this study, we have not promoted investor participation in large government companies which are floated on the international stock exchange. However, great opportunities exist for foreign investment in these companies particularly in the tertiary sector of industry (eg. infrastructure).

5.1.2 Position of North Sumatra in International Trade.

North Sumatra is included in the regional economic cooperation organizations of IMT.GT (Indonesia, Malaysia and Thailand Growth Triangle) and IMS-GT (Indonesia, Malaysia and Singapore Growth Triangle).

Generally, regional cooperation will be implemented effectively if there is frequent interaction between the regions. The SIJORI growth triangle is making progress due to the close relationship which has been established and projects have been implemented which are complementary rather than competitive between the regions. However, IMT.GT covers too large an area to facilitate physical inter-relationships and, as a result, it has not produced better results than conventional bilateral or multilateral economic cooperation. In addition, there are several IMS and IMT.GT projects established within IMS and IMT.GT in Sumatra which are neither efficient or cost effective because they are manufacturing commodities which compete with similar products already available in other regions of the growth triangle.

International trading can be improved when the new International Airport is established in Medan and has the capacity to accommodate international passengers and cargo.

5.2 POTENTIAL SECTOR AND INVESTMENT OPPORTUNITIES

Described below are those industrial sectors which provide the best potential for investment opportunities and are the most competitive compared with other provinces and surrounding countries.

5.2.1 Primary Sector

Agricultural products in North Sumatra are traditionally dominated by plantation commodities (palm oil, rubber, coffee, coconut and tobacco) produced by small holders, private and government owned plantations.

Livestock small holdings are a potential development for Tapanuli Utara Regency and dairy and beef cattle breeding and the associated secondary food industry are the best options.

There are new cacao, fruit and spice plantations run by private smallholders and highland horticulture (vegetable, potatoes and flowers) have been improved and cultivated to produce a better quality for the domestic and international markets.

Agricultural development should concentrate on the value-added secondary industry rather than expanding the primary industry which is very susceptible to fluctuations in the market price. The food industry has increased significantly, according to the number of companies involved, and manufactures a variety of products, eg. fruit juice.

A. Foodcrops and Horticulture

Potential Project in Food Corps and Horticulture (Primary and Secondary)

(1) Horticulture Plantations (non fertilized vegetable and flowers)

Location : Kab. Karo
Kab. Dairi
Product : fresh flowers, potato, unfertilized vegetable,
food industry (asparagus)
Mart : Domestic & Export
Scale of Company : Small to Medium

(2) Horticulture Plantations (pineapple, banana, markisa, guava)

Location : Kab. Simalungun
Kab. Karo
Kab. Asahan
Kab. Langkat
Product : Fruit juice, banana powder
Market : Domestic & Export
Scale of Company : Small to Medium

(3) Cacao Plantations and processing

Location : Kab. Asahan
Kab. Tapanuli Selatan
Product : Cacao powder, food industry (confectionary,
cocoa mix instant)
Market : Domestic & Export
Scale of Company : Small to Medium

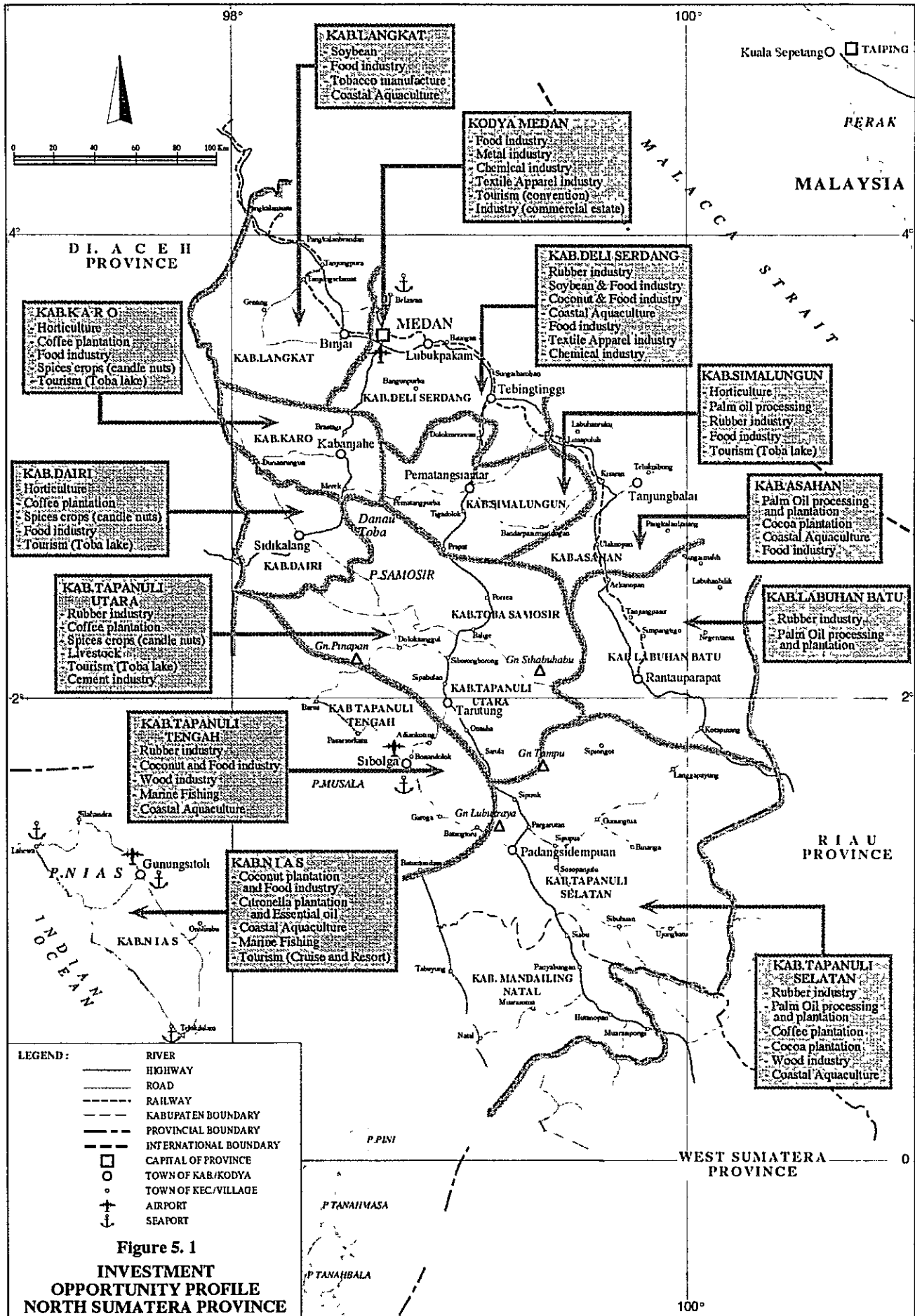


Figure 5. 1
INVESTMENT
OPPORTUNITY PROFILE
NORTH SUMATERA PROVINCE

(4) Foodcrops (coconut, soybeans and corn)

Location	: Kab. Deli Serdang Kab. Nias Kab. Langkat Kab. Tapanuli Tengah
Product	: Coconut powder, coconut jelly, soybean drinks, maizena
Market	: Domestic & Export
Scale of Company	: Medium

(5) Spice Plantations (candle nuts)

Location	: Kab. Langkat
Product	: Candlenuts and nuts oil
Market	: Domestic & Export
Scale of Company	: Small to Medium

(6) Citronella Plantations

Location	: Kab. Nias
Product	: Essential Oil
Market	: Domestic & Export
Scale of Company	: Small to Medium

B. Plantation

(1) Coffee Plantations

Location	: Kab. Dairi Kab. Karo Kab. Tapanuli Utara Kab. Tapanuli Selatan
Product	: High quality arabica coffee seed and powder, food industry: coffee instant, confectionary
Market	: Domestic & Export
Scale of Company	: Small to Medium

(2) Sugarcane Plantations

Location	: Kab. Asahan Kodya Tebing Tinggi
Product	: Sugar
Market	: Domestic
Scale of Company	: Small to Medium

C. Fisheries

The Indian Ocean waters on the west coast, including those around Nias Island, are rich in fishery resources which have not yet been fully exploited. Local fishermen are unable to raise the capital to purchase better equipment, including larger fishing vessels with modern navigation systems required for offshore fishing.

The Nias coastal area has potential for aquaculture because there is little pollution from either human waste, oil exploration or shipping. Coastal aquaculture will be best suited for smallholder businesses producing shrimp, grouper (kerapu), Baramundi (kakap), snapper, etc.

Potential Projects in Fishing (Primary and Secondary Sector)

(1) Coastal Aquaculture

Location	: Kab. Asahan Kab. Langkat Kab. Deli Serang Kab. Tapanuli Tengah
Product	: Shrimp & milkfish the east coast on Grouper Baramundi (kakap), Snappes Chinese Herring (terubuk) on the west coast
Market	: Domestic & Export
Scale of Company	: Small to Medium

(2) Marine Catching

Location	: Kab. Tengah Kab. Simalungun
Product	: Yellowfin tuna, bigeye tuna, albacore, longtail tuna & cakalang
Market	: Domestic & Export
Scale of Company	: Medium to Large

D. Forestry

Lumber stocks are decreasing in North Sumatra. As a result, log trading practices and lumber should be changed in favour of wood product industries and value added products which will improve the sustainability of the resources.

E. Mining (non petroleum and gas)

Cement, marble and quarry sand are among the potential mining commodities to be produced in North Sumatra. Although the quality is generally no better than products from South Sumatra and West Sumatra, North Sumatra has a better market access.

Environmental constraints and the lack of good access to mineral deposits are major handicaps for mining exploration and operation.

5.2.2 Secondary Sector

Non Petroleum and Non Gas processing Industry

After agriculture, the non petroleum and non gas processing industry is the most important sector in North Sumatra and provides a 29.54% contribution to the provincial economy.

The manufacturing sector is dominated by the secondary processing of agricultural products, ie. food industry, wood industry and rubber industry.

The metal and chemical industries, including textiles and garments are competitive for both domestic and regional markets.

In 1998, the main contributors to the export value from the manufacturing industry were vegetable oil (20.8%), crumb rubber (15.2%) and processed oil, animal and vegetable fat (8.2%).

Between 1990 and 1999, there were 142 approved projects for domestic investment derived mainly from the food industry (42.7%), non metal mineral industry (30.8%), and chemical industry (7.9%). There were 90 PMA projects approved for foreign investment, consisting primarily of the chemical industry (67.8%), non metal mineral industry (12.9%) and paper industry (10.2%).

North Sumatra has good access to foreign markets through its position in Regional Growth Triangles. Additional investment is required to make a more diversified range of manufactured products with a highly competitive value for the international market.

Advantage can be taken of the following characteristics to develop opportunities in the manufacturing industry:

- Open opportunity for downstream industry from the primary sector (upstream), because of available raw material, especially in the agriculture, plantation, forestry and fishery sectors.
- Open demand from the international market
- Autonomous regional policy which supports development of the region
- Globalization of the market (direct trading).

Based on the potential of North Sumatra, investment opportunities exist for developing the following manufacturing industries:

- Food and beverage Processing Industry
- Wood industry and other forest products
- Textile industry
- Chemical industry
- Non metal mineral industry
- Other processing industries

Potential Project in Manufacturing Sector (Secondary Sector)

(1) Rubber Industry

Location	: Kab. Simalungun Kab. Labuhan Batu Kab. Deli Serdang Kab. Tapanuli Utara Kab. Tapanuli Tengah Kab. Tapanuli Selatan
Product	: Rubber thread, tires, sporting goods, rubber pipe, etc.
Market	: Domestic and Export
Scale of Company	: Medium to large

(2) Palm Oil Processing

Location	: Kab. Simalungun Kab. Asahan Kab. Tapanuli Selatan
Product	: CPO, cooking oil, margarine (food industry).
Market	: Domestic and Export
Scale of Company	: Medium to Large

(3) Tobacco Manufacturing

Location	: Kab. Langkat
Product	: Cigar, cigarillo
Market	: Export
Scale of Company	: Medium

(4) Wooden Product Industry

Location	: Kab. Tapanuli Selatan Kab. Tapanuli Tengah
Product	: Processed timber profilek & furniture
Market	: Domestic and Export
Scale of Company	: Medium to Large

(5) Pulp and Paper Industry

Location	: Kab. Tapanuli Selatan Kab. Tapanuli Tengah Kab. Simalungun
Product	: Pulp, corrugated paper, board paper, kraft paper & newspaper
Market	: Domestic and Export
Scale of Company	: Medium to Large

(6) Cement Industry

Location : Kab. Tapanuli Utara
Product : Portland Cement
Market : Domestic and Export
Scale of Company : Medium to Large

(7) Chemical Industry

Location : Kab. Deli Serdang
Product : Paint, varnish and lacquer
Synthetic resin and plastic materials
Soap and detergent
Market : Domestic and Export
Scale of Company : Small to Medium

(8) Non Metal Mineral Industry

Location : Medan
Product : Glass and tableware
Pottery and China
Market : Domestic and Export
Scale of Company : Medium

(9) Textile Apparel Industry

Location : Kab. Deli Serdang
Product : Apparel clothing, sport shoes
Market : Domestic and Export
Scale of Company : Medium

5.2.3 Tertiary Sector

The tertiary sector contributes over 42% to the North Sumatra economy; mainly from the trading, hotel and restaurant sector.

Between 1990 and 1999, the main sectors for domestic investment (PMDN) were the electricity, gas and water sector (43.9%) and hotel and restaurant sector (19.9%). For foreign investment (PMA), the main investment sectors were electricity, gas and water (46.8%) and transport, storage and communication (24.7%).

1. Tourism

The greatest investment potential is in the tourism sector where North Sumatra can offer good value to the international market. A long time ago, Lake Toba was recognized as second only to Bali as a tourist centre but, more recently both the natural and social environment has deteriorated as a result of too much low quality tourism. The area needs careful planning and marketing, including interactive programs, to improve facilities and cater to a more up-market international clientele.

Nias Island is more suitable as a low density resort of natural interest because it has beautiful beaches, coral and great surfing and is not suited to mass tourism. An exclusive low volume, high cost concept is the preferred approach rather than high volume and low rate.

2. Industrial and Commercial Estate

In order to support the growth of primary and secondary industry, more industrial and commercial estates will be required particularly along Medan – Tebing Tinggi corridor. These facilities should be environmentally acceptable, have a pleasing appearance and be fully equipped with present day technology.

The potential for a new industrial and commercial center next to the proposed new Medan International Airport at Kuala Namu warrants consideration. Such facilities should be suitable to accommodate high-tech or value-added manufacturing industries and include a commercial center to support the new airport.

Established industrial estates in North Sumatra include:

- Kawasan Industri Medan, owned and operated by government occupies a total area of 400 ha, and has achieved sales of 150 ha.
- Kawasan Industri Tanjung Morawa
- Kawasan Industri Medan Star

Potential in Tertiary Sector

(1) Lake Toba Tourism Development

Location	: Kab. Karo Kab. Dairi Kab. Tapanuli Utara Kab. Simalungun
Product	: Resort development Toba mini cruise ship and water sport Agrotourism
Market	: Domestic and International

(2) Medan Convention and Exhibition Center

Location	: Medan
Product	: Exhibition and convention center
Market	: Domestic and international
Scale of Company:	Medium

(3) Nias Tourism Development

Location	: Kab. Nias
Product	: Mini cruise ship, boutique resort, retreat chalet Adventure attraction Game fishing
Market	: Domestic and international
Scale of Company:	Medium

Special Considerations:

Consideration should be given to the following points:

- (1) North Sumatra has only obtained limited foreign investment from IMT-GT (Indonesia, Malaysia, Thailand Growth Triangle Cooperation). It is evident that foreign investors must focus their interest to more valuable commodities, such as tourism and property, rather than producing uncompetitive goods for the global market. A review of the manufacturing sector is needed in order to identify the regional competitive value of products and their potential to compete in the global market place.
- (2) The agricultural labor force in North Sumatra is not as large as in South Sumatra or Jambi because the contribution from transmigration is limited.
- (3) Participation by the local population is important during large land acquisitions if major areas belong to the community. This participation will ultimately result in community commitment and support for the development.
- (4) Global competition is inevitable and international standards of production and quality control will be necessary in order to compete successfully in this market. Local labor is unlikely to have the required skills or productivity to meet global standards without proper training.
- (5) Smallholders are very sensitive to fluctuations in the market prices of basic agricultural products. Secondary industry will create more value-added and a better market but requires the input of technology and an improvement in the attitude of smallholders.
- (6) Development of the food industry requires skilled processing technology to satisfy export market standards and manufacturers must ensure they have an adequate distribution infrastructure.

ATTACHMENT

ATTACHMENT - A
A SHEET POTENTIAL PROJECT &
A PROFILE OF LOCAL PARTNER

ATTACHMENT – A

A Sheet Of Potential Project

(Ref. No.)

A	Project No.	12-001
B	Sector	Hotel & Restaurant (Tertiary Sector)
C	Area / Region	North Sumatra
D	Project Site	Sipiso-Piso
E	Project Outline	Golf, Resort Hotel and Recreation in North Side of Lake Toba (150 ha) Proposed Facilities is attached
F	Local Partner	(A Profile is attached)
G	Type of Expected Cooperation from Japanese Companies	Joint Venture
H	Counterpart Agency	-
I	Total Cost of Investment	US\$ 21,000,000
J	Remarks	

(Date:)

A Profile Of Local Partner

(Project No.)

A	Name of Company & Address	PT. SIPISO-PISO SOA DAMARA Jl. Melati Putih Blok D-13 No. 11A Medan, Sumatra Utara Jl. Tanah Kusir II No. 13 Jakarta Phone: (021) 729-0581 Fax : (021) 729-0584
B	Business Activities	Golf, Resort & Hotel
C	Establish in (year)	1997
D	President / Owner	Hans H. Silalahi
E	Structure of shareholding	Domestic Investment
F	Production • Capacity / Year • Capacity Utilization	
G	Annual Amount	US\$ 1,000,000
H	Workforce	300
I	Production Facilities (Land, Building, Machinery and Equipment)	Land = 200 ha
J	Remarks	

(Date:)

A Sheet Of Potential Project

(Ref. No.)

A	Project No.	12-002
B	Sector	Plantation & Chemical Industry (Primary & Secondary Sector)
C	Area / Region	North Sumatra
D	Project Site	Medan
E	Project Outline	Improvement of production capacity from 30 ton/hour to 60 ton/hour
F	Local Partner	(A Profile is attached)
G	Type of Expected Cooperation from Japanese Companies	Joint Venture
H	Counterpart Agency	-
I	Total Cost of Investment	US\$ 17,000,000
J	Remarks	

(Date:)

A Profile Of Local Partner

(Project No.)

A	Name of Company & Address	PT. SUMBER TANI AGUNG Jl. Perniagaan Baru No. 22c - 26c Medan, 20111, Sumatera Utara Phone: (061) 415-6262 Fax : (061) 455-46155
B	Business Activities	Oil Palm Plantation and Processing
C	Establish in (year)	1975
D	President / Owner	Suwandi Wijaya
E	Structure of shareholding	Domestic Investment
F	Production • Capacity / Year • Capacity Utilization	150.000 ton TBS/Year 200.000 ton TBS/Year
G	Annual Amount	Rp. 32,500,000,000.-
H	Workforce	322
I	Production Facilities (Land, Building, Machinery and Equipment)	Land = 1,833.8 ha Building 6616 m ² Machinery: Boiler, steam turbine, genet, etc.
J	Remarks	Export to European countries

(Date:)

A Sheet Of Potential Project

(Ref. No.)

A	Project No.	12-003
B	Sector	Transportation (Tertiary Sector)
C	Area / Region	North Sumatra
D	Project Site	Belawan, Medan
E	Project Outline	
F	Local Partner	(A Profile is attached)
G	Type of Expected Cooperation from Japanese Companies	-
H	Counterpart Agency	-
I	Total Cost of Investment	-
J	Remarks	

(Date:)

A Profile Of Local Partner

(Project No.)

A	Name of Company & Address	PT. PERSERO PELABUHAN INDONESIA I Cabang Belawan Jl. Sumatera No. 1 Belawan 20411 Phone: (062) 641919, 641720 Fax : (061) 641300
B	Business Activities	Sea Port & Services
C	Establish in (year)	
D	President / Owner	Drs. Armen Lubis (General Manager)
E	Structure of shareholding	Public Enterprise
F	Production • Capacity / Year • Capacity Utilization	
G	Annual Amount	
H	Workforce	
I	Production Facilities (Land, Building, Machinery and Equipment)	
J	Remarks	

(Date:)

A Sheet Of Potential Project

(Ref. No.)

A	Project No.	12-004
B	Sector	Food Industry (Secondary Sector)
C	Area / Region	North Sumatera
D	Project Site	Medan
E	Project Outline	Plantation and cacao processing
F	Local Partner	(A Profile is attached)
G	Type of Expected Cooperation from Japanese Companies	Joint Venture
H	Counterpart Agency	
I	Total Cost of Investment	
J	Remarks	

(Date:)

A Profile Of Local Partner

(Project No.)

A	Name of Company & Address	PT. SARI KAKAO PERKASA Jl. Sisingamangaraja 170 Medan 20217 Phone: Fax :
B	Business Activities	Cocoa Powder & Cocoa Butter Production
C	Establish in (year)	1992
D	President / Owner	
E	Structure of shareholding	Domestic Investment
F	Production • Capacity / Year • Capacity Utilization	4,216 tones per year
G	Annual Amount	
H	Workforce	202
I	Production Facilities (Land, Building, Machinery and Equipment)	
J	Remarks	Domestic and Export

(Date:)

A Sheet Of Potential Project

(Ref. No.)

A	Project No.	12-005
B	Sector	Paper Industry (Secondary Sector)
C	Area / Region	North Sumatera
D	Project Site	Medan
E	Project Outline	Orrugated paper production
F	Local Partner	(A Profile is attached)
G	Type of Expected Cooperation from Japanese Companies	Joint Venture
H	Counterpart Agency	
I	Total Cost of Investment	
J	Remarks	

(Date:)

A Profile Of Local Partner

(Project No.)

A	Name of Company & Address	PT. MORAWA PACKAGING INDUSTRY Jl. Kirana Raya No. 48-50-52 Medan 20112 Phone: (061) 414-7681 Fax : (061) 414-7681
B	Business Activities	Paper Production
C	Establish in (year)	1991
D	President / Owner	
E	Structure of shareholding	Domestic Investment
F	Production • Capacity / Year • Capacity Utilization	24000 tones per year
G	Annual Amount	
H	Workforce	150
I	Production Facilities (Land, Building, Machinery and Equipment)	
J	Remarks	Domestic and Export Oriented

(Date:)

A Sheet Of Potential Project

(Ref. No.)

A	Project No.	12-006
B	Sector	Wood Industry (Secondary Sector)
C	Area / Region	North Sumatera
D	Project Site	Medan
E	Project Outline	Wood processing
F	Local Partner	(A Profile is attached)
G	Type of Expected Cooperation from Japanese Companies	Joint Venture
H	Counterpart Agency	
I	Total Cost of Investment	
J	Remarks	Export Oriented

(Date:)

A Profile Of Local Partner

(Project No.)

A	Name of Company & Address	PT. SICANANG INDAH Jl. Prof. M H Yamin No. 46 Medan 20234 Phone: (061) 456-0573 Fax : (061) 956-0574
B	Business Activities	Particle board, medium density fireboard production.
C	Establish in (year)	1990
D	President / Owner	
E	Structure of shareholding	
F	Production • Capacity / Year • Capacity Utilization	111,000 m3 per year (export) 160,000 m3 per year
G	Annual Amount	
H	Workforce	1000
I	Production Facilities (Land, Building, Machinery and Equipment)	
J	Remarks	Export Oriented

(Date:)

ATTACHMENT - B
CAPITAL INVESTMENT PROCEDURE

ATTACHMENT – B

CAPITAL INVESTMENT PROCEDURE

I. The following capital investment procedures consist of:

1. New Capital Investment

a. Domestic Capital Investment

The applicant is handwritten enclosed with Model I/PMDN addressed to the Head of BKPM (The Capital Investment Cooperation Bureau) and some enclosures which then sent to BKPM together with :

1. A photocopy of the holding company's certificate
2. A legalized photocopy of the cooperative organization. An identify card for individual
3. A lawyer's authority/right of that application is not signed by the applicant
4. A photocopy of the applicant's tax registration number code
5. Description of the production process enclosed with flowchart process and/industrial process assistant
6. Description of the company's business activities in services.

The head BKPM will issue a proving letter, which can also function as a proving principle for the time of the application of this proving letter which is determined within no more than 17 working days, starting from the time the application fully admitted.

This proving letter is only valid for 3 years counted from the date of the letter issued, except there are other requirements by Head of BKPM for several capital investments.

b. Foreign Capital Investment

The application is written together with the enclosure of Model I/PMDN (Domestic Capital Investment) addressed to Head of BKPM together with other enclosures sent to BKPM completed with :

1. For domestic/local participants
 - A photocopy of Holding Company's certificate
 - A photocopy of the statutes of the Cooperative Group that has been legalized
 - A photocopy of a personal identify card
 - A photocopy of Tax Registration Number Code
2. For foreign participants
 1. A photocopy of the certificate of the Holding Company translated in English and Indonesia.
 2. Description of the production process completed with flowchart process and type of raw material/supporting material in the industry processing.
 3. Description of company's business activities for services
 4. Concept of Joint Venture Agreement in English or in Indonesia signed by all the members of joint venture

5. Authority/Right of a lawyer when the signing is not by the applicant.

Based on the evaluation on capital investment application, Head of BKPM proposed a letter of request to the President completed with some consideration for confirming the proving.

If the request is approved by the President, head of BKPM will issue an announcement of proving by the President which will be forwarded to the applicant together with enclosure for the institution addressed.

The period of the processing of the announcement stating the proving by the President is no longer than 41 working days, starting from the time the request is fully accepted.

The period of the processing of the announcement starting the proving by the President is valid for 3 years starting from the date it is issued unless there are some other requirements by Head of BKPM for particular capital investment.

2. Application/Request for Capital Investment Extension

The application for the extension of capital investment is an applicant for the increase of capital investment with other facilities with the purpose of increasing the capacity and/or the type of goods products completed by a company that has got an approval in domestic or foreign capital investment.

The requirements for the extension of both capital investment are as follow:

- a. The application for the extension intended for capital investment company which has permanent legal business permit.
- b. The application is handwritten completed with Model I/PMDN or Model II/MA addressed to Minister of Capital Investment/Head of BKPM with a carbon-copy sent to Head of BKPM enclosed with :
 - A photocopy of permanent business permit
 - Description of the extension of production process/business activities for the cooperation land which is not of the same type of the business mentioned in the permanent business permit.
- c. The proving of capital investment extension of both investments (domestic and foreign) is issued by Head of BKPM in the form of a proving letter.
- d. The time limit of the proving letter of extension is 2 years starting from the date the letter was issued, unless there are some other requirements by Head of BKPM for particular capital investments.

II. Facilities

Facilities, which can be given to domestic/foreign companies, are as follows:

1. Delay of total payment and tax and total payment and important tax in importing certain goods or services does not include replacement for damaged goods as long as the main goods are used as needed and they are not transferred.

2. Request for delay of total payment and tax and total payment and import tax should be made writing attached with a form of added tax and addressed to the Head of Capital Investment Coordinating Board (CICB) attached with the following items:
 - a. A photocopy of confirmation letter of enterprise tax capability legalized by a local tax office.
 - b. A letter contract of certain main goods purchase from buyer or supplier or merchandise list/invoice.
 - c. A letter of clarification of technical relation between machine/goods used and production process.

III. Stockholders and Foreign Investment Company

Law No. 1 year 1967 in relation to Government Regulation No. 20 year 1999 states that a domestic/foreign investment company should resemble an incorporation in accordance with the laws prevailed in Indonesia and it should be based in Indonesia and should follow the following regulations:

1. Join Venture or all the capital owned by foreign citizen/institution
2. Total capital of foreign investment is unlimited
3. Foreign Investment Company is given business license letter valid for 30 year starting from the time the company runs its business commercially
4. Company activities are specially located in contract areas or industrial areas
5. Foreign Investment Company in the form of Join Venture can run its business in port land, production, transmission and distribution of electric power for public, telecommunications, shipping, flight, drinking water, trains, atom power and mass media.

IV. Type of License Letter for Domestic/Foreign Investment Company

The President Decree No. 97 year 1993 states that Domestic/Foreign Investment Company should obtain the following proof letters of investment issued by:

1. Capital Investment Coordinating Board :

- a. Certificate of limited Importer, the decree of facility/dispensation of import tax and other import activities.
- b. Proof of expatriate employment planning which will be used as a base for the Head Regional Capital Investment Coordinating Board (RCIB) in issuing a working license for the expatriate.
- c. Permanent business license on behalf of minister who is in charge of business land based on Regional Planning. This license is effective as long as the company is carrying out its production.

2. Local Authority :

- a. Regional license issued by Head of Regional Agrarian Office in the Regency/ Municipality related to Regional Planning.
- b. Building concession, concession of long-term lease and yield tap bay Head of Land Affairs in the regency/municipality.

- c. As stated in the law/Head of National Land Affairs No. 2 year 1993, the Length of building concession it no more than 30 years and the length of long-term lease is 35 years and it is renewable at the last date of concession.
- d. Building license is issued by Head of Employment Office in the local Regency/Municipality or tax power on behalf of the regent/major.
- e. License of UUG/HO issued by II Regional Secretary on behalf of the regent/mayor.

- This license is not obligatory for industrial company which posses Environmental Impact Analysis or is located in Industrial Area or Contract Area.
- Working license of expatriate issued by RCICB. In general, the process of obtaining the license is classified into two categories:

- ❖ Process in the Central Government:

Request for a proof of expatriate employment planning is addressed in writing to the Minister of Investment/Head of CICB to obtain the proof. Proof of expatriate employment planning is issued by Minister of Investment employment planning regulation.

- Those expatriate working for domestic/foreign company must posses temporary visa issued by Indonesian Embassy.
- Request for obtaining visa should be made in writing attached with Ppt 2 form and addressed to the Minister of Investment/Head of CICB.
- Head of CICB issues a recommendation in the form of TA 02 and it is submitted to Directorate General of Immigration.
- Based on recommendation of TA 01, the DG of Immigration will inform the embassy to issue temporary visa for expatriate.

- ❖ Process in Regional Government:
New working license for expatriate:

- ❖ On the arrival of expatriate with temporary visa, the company should make a request for temporary entrance permit card from local immigration office.

- ❖ Request for working license for expatriate should be addressed in writing to Head of RCICB by attaching the following requirements:

- A passport photo sized 4 x 6 cm
- A photocopy of passport
- A photocopy of temporary entrance permit card
- Name and education and the training program which involve Indonesian employees that will replace the position of expatriate
- A photocopy of expatriate employment planning letter
- Proof of working license issued by head of RCICB-NS in the form of working license letter attached with the appendices given to the requester and to be local Employment Department Office.
- The working license for expatriate which is expired can be renewed.

❖ **Renewal of Expatriate working license:**
Request for the renewal of expatriate working license in writing is addressed to Head of RCICB-NS within 30 days before the expired date by attaching the following documents:

- Legitimation Book of expatriate working license
- Proof of expatriate tax payment
- Proof of compulsory contribution for education and training if their regulation has been effective
- Report of realization of education and training program guidance or the Indonesian of manpower.
- A photocopy of valid expatriate employment planning letter
- Two passport photo size 4 x 6.

Based on the proof of request for renewing expatriate working license, Head of RCICB issues a recommendation for the renewal of temporary entrance permit to DG of immigration.

While waiting for the license to be released, Head of RCICB is able to issue a temporary working license for expatriate which is valid for 2 months.

After obtaining the proof of renewal, the company should submit the photocopy to the head of RCICB so that the renewal of expatriate working license regulation can be released.

Renewal of expatriate working license. The regulation issued by RCICB on behalf of Minister of Investment/Head BIBC state that the expatriates who work continuously for 3 years in Indonesia can renew their working license. When they are out of Indonesian territory with exit permit status.

The expatriates who are promoted to be directors and arrange meetings of all stock holders without being notarized do not need to obtain exit permit since they are still needed to occupy several positions.

ATTACHMENT - C
CONTACT POINT

ATTACHMENT - C

CONTACT POINTS

There are many contact points with which Indonesian entrepreneurs could contact to look for Japanese potential investors as follows :

A. INDONESIA

- (1) JETRO = Japan External Trade Organization
Jakarta Office
Summitmas I, 6th Fl.
Jl. Jend. Sudirman Kav. 61 – 62
Jakarta 12160, INDONESIA
Phone : 62 – 21 – 5200264 (Hunting)
Fax. : 62 – 21 – 5200261/5251360
Home Page : www.jetro.go.jp
- (3) Japanese Companies (Indonesia)
Please refer to "Directory of Japanese Companies & Representative Offices in Indonesia (JETRO)"
- (4) UNIDO = United Nations Industrial Development Organization
Jln. Thamrin No. 14
Jakarta
Phone : 62 - 21 - 3141308
Fax : 62 - 21 - 3907126
- (5) Japanese Investment Advisor
JICA Advisor Office, 5th Fl.
Jakarta 12190, INDONESIA
Phone : 62 – 21 – 5202052/5202053
Fax. : 62 – 21 – 5274854
E- mail : [ojabkpm @ ibm.net](mailto:ojabkpm@ibm.net)

B. JAPAN

- (1) Embassy of the Republic of Indonesia
5 – 2 – 9 Higashi Gotanda, Shinagawa – ku
Tokyo 141-0022, JAPAN
Phone : 81 – 3 – 3441 – 4201
Fax. : 81 – 3 – 3447 – 1697
Telex : J – 22920
- (2) Consulate General of the Republic of Indonesia
6th Floor Daiwa Bank Semba Bldg
4 – 4 – 21 Minami Semba, Chuo-ku,
Osaka 542-0081, JAPAN
Phone : 81 – 6252 – 9824/25
Fax. : 81 – 6252 – 9872
E-mail : [kjrioska @ osk. 3web.ne.jp](mailto:kjrioska@osk.3web.ne.jp)

- (3) United Nations Industrial Development Organization (UNIDO)
Investment and Technology Promotion Office (ITPO), Tokyo
Shin-Aoyama Bldg. W-16F
1-1-1- Minami-Aoyama, Minato-ku, Tokyo 107-0062, JAPAN
Phone : 81 - 3 - 3402-9341
Fax. : 81 - 3 - 3402-9384
E-mail : matsushi @ magical 2.egg.or.jp
- (4) ASEAN Centre
Central Building ,
4 - 10 - 3 Ginza, Chuo - ku
Tokyo, JAPAN
Phone : 81 - 3 - 3546 - 1221
Fax : 81 - 3 - 3546 - 9050
- (5) Japan Small Business Corporation (JSBC)
Overseas Investment Advisor (in charge of Indonesia)
Toranomom No. 37 Mori Bldg
4 - 5 - 1 Toranomom 3 - chome, Minato - ku,
Tokyo 105, JAPAN
Phone : 81 - 3 - 5470 - 1522
Fax : 81 - 3 - 5470 - 1527

