
INDUSTRIAL SECTOR INVESTMENT OPPORTUNITY IN INDONESIA: CASE STUDY OF KARAWANG REGENCY WEST JAVA

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Abstract:

Investment principles in Indonesia has been executed using some methods as well as industrial agglomeration establishment which is allocate and coordinate similar and interrelated industry within a certain industrial location; the industrial region functions as a mean and incentive industrial process to attain production economical scale and efficiency of production; to improve investment climate considers to capital rate of return and profit gain; green environment investment management continuous production process as a function of social responsibility industrial implementation.

Keywords: industrial sector, investment, agglomeration, incentive, production efficiency, social responsibility

1. Introduction

Today Indonesia has lucrative industrial sector good for economical foreign investments. There are some advantages with regard to production factors as in large number of people, consumer and manufactured goods potential buyer as well as labor productive production process. However, the investor possibly earns return and profits when items to be produced, amounts, costs, risks, consumer, factory location, market, investment climate condition and corporate social responsibility could be indentified at the first stage, so that the investment may executed in line with expectations.

Industrial sector in Indonesia is a lucrative business opportunity; foreign investors have flocked Indonesia. ABC news 5 May 2011 stated during January-April 2011, the investment coordinating board (BKPM) has given permission for the 45

principles of foreign direct investment (FDI) in industry sector with a total investment value US\$4.34 billion and other foreign investment in process worth US\$962.04 million. The varieties of industry are food manufacturing, beverage and edible oil derived from vegetable or animal fats. The British Virgin Islands investors are planning to invest fruit and vegetable processing industry worth of US\$487.56 billion in Banten and Singaporean investors would invest US\$424.89 million worth of agricultural crops as in vegetables, fruits and sugar industry in Papua. People's Republic of China (PRC) have invested in the form of energy, agriculture and infrastructure industries valued of US\$ 28.4 million as well as Canada have recently addressed the issue of investments made by the manufacturer of BlackBerry Research In Motion (RIM). The government of Indonesia has tried to direct the downstream investments focused on manufacturing industry due to more suitable and potentiality develop in Indonesia. While for the mean time Indonesia exports raw materials, therefore the manufacturing industries processing raw materials into finished products of value-added. The government of Indonesia provides facilities to foreign investors by way of licensing and tax holiday to attract investors. However, barriers to entry of foreign investor still exist. Indonesia is uncompetitive for investment because crime and theft is rampant, poor work ethic, high and large extent taxation system, inconsistent government policies, tight foreign exchange regulation, bribery rampancy, high inflation, limited educated workforce, limited funding access, weak labor regulation, inefficient bureaucracy, decayed infrastructure and unstable government (The Global Competitiveness Report World Economic Forum, WEF, 2007-2008).

Based on such conditions the government of Indonesia improves the business investment environment condition reflected in the road map for national medium term development plan (RPJMN 2010-2014) contains programs related to improve governance, upholding the pillars of democracy, rule of law and combating corruption inclusive based on justice, economic development in particular industrial sectors. Welfare improvement would be achieved through a number of development programs for poverty alleviation and job creation including improvement of educational programs, health and accelerated development of basic infrastructure. To improve regional relations political and economically in 2012, in line with such programs the government of Indonesia have prepared to built new roads and increase road capacity along 4.005 km. Roads repair as long as 36,319 miles, built new bridges more than 7.668,2 meters and maintenance of 217,076 meter bridges entire country with a total cost of Rp 27.2 trillion, or 19.3% of state estimation in 2011. Furthermore in the year 2014 the total 19,370 km highway construction completion program in Sumatra, Java, Bali, Borneo, Sulawesi, Nusa Tenggara, East Nusa Tenggara, and Papua would be executed. The economical development program of Indonesia aimed to accelerate economical structure change from agrarian to industrial society; this is in line with the vision of Indonesia in 2025 that lifting Indonesia become a developed country among 12 world major economical power in the year 2025, and predicted would become world number 8 economical powers in 2045.

Industrial sector investment opportunities in Indonesia is lucrative as Indonesia has extensive territory and abundant natural resources an indication of raw materials availability and a warranty of production continuity to supply product locally and the world. Safety factors and political stability of Indonesia is a guarantee for expanding business new investment and excellent marketing opportunities locally and the global market. Additionally, the government of Indonesia bureaucracy has been reformed to be clean government, and corporate good governance is strictly to be implemented improving more cost efficiency of production and distributions.

Political and social security stability in Indonesia has been considered as important for foreign investment comforts. In addition, the investment process would be more simple due the government provides investment licensing facilities through new tax holiday and bureaucratic reform. The great number of population in Indonesia is an opportunity to be a potential buyer for foreign investment. The total population of Indonesia is 228 million people who are living in over 363 districts, 33 provinces, this is an opportunity for labor supply based on their education as 51.50% are graduated of elementary school, 18.90% junior high school, 60% senior high school, 7.80% vocational education, 2.70% bachelor, 4.60% graduate school (Central Statistics Agency of Indonesia/ BPS, 2010). Indonesia would become more attractive investment location of ASEAN countries investors as well as various parts of the world because it has great resources.

The investment industry sector success in Indonesia has been demonstrated in Karawang region, West Java province, over the past 20 years, there were 295 units of plant originated foreign investors, and 187 units of factory domestic investors. Karawang region is agricultural area originally and the majority population living in economical subsistent condition working as farm workers, now it has shifted to urban industry where business professional and foreign investors influx such area. The result is Karawang region good economic growth and increasing society welfare better than other regions. The success of economic development in Karawang region begun with the presidential decree No. 53 year 1989 regarding industrial development zone, Karawang region designated as a regional industrial settlement. The number of industry until the year 2008 reached 9.409 units consists of 482 industrial enterprises plant, the companies located in such industrial zone are 96 plants, and smaller industrial unit spreads in other 8.831 districts, the investment are always increasing in Karawang region yearly. The amount of investment in year 2005 amounts Rp. 60.119 trillion, in 2006 amounts Rp. 63.559 trillion, in 2007 amounted to Rp. 63, 783 trillion and in 2008 reached Rp. 86,449 trillion. While the workers absorbed by the industry are 205.958 people, consists of 181.883 local citizens and 1.324 foreigners, while smaller industry absorbs 22.751 workers. Karawang region is lucrative industrial areas and has been much attracting both foreign and local investors due to match with some profitable business industrial area criteria.

Additionally Karawang region has ample business infrastructure and other supporting facilities compatible for industrial zone. Such industrial zones provide parcel of lands to be possible build some industrial establishments. Such areas currently have

only 30% occupied parcel of land in Karawang International Industrial City (KIIC) with 55 industrial establishments, it consists of Mitra Karawang 8 units, Indotaisei 16 units, Kujang Cikampek 11 units, Surya Cipta Swadaya 20 units. Predictably the Karawang industrial site would have a success to industrial sector investment contributed lucratively for economic development of Indonesia. Karawang region meets business criteria and deserves lucrative international industry sector investments, this would including a discussion of industrial agglomeration and investments location, industrial area meaningful for international business investment, the investment climate in Indonesia and investment requirement including permissions and risks and social responsibility of investment.

2. Industrial Agglomeration and Investment Location

Industry is merely a collection of companies which produce homogeneous goods, interrelated goods or substitution goods and has some value added economical activities (Muhammad True, 2010), meanwhile investment is a capital investment or capital formation to buy stocks, productive assets or capital goods such as land, buildings, tools, machinery and others. Agglomeration industries are the concentration of industrial relevance activities at certain location with continuous production process (True, 2010). The industry agglomeration may benefit to increase market demand, and production cost savings.

Companies with the purpose of investing for profit would possibly earn certain profits. The decision policy of certain strategic location should include availability of production factors, advantageous for domestic and international market prospects. The companies within industrial area would gain some benefit as subcontracting job opportunities, more competitive production processes to gain larger market areas and product marketing competitiveness (Michael P. Todaro and Stephen C. Smith, 2006). Industrial agglomeration has been prepared to accommodate business groups as industrial cluster linkages, this model believed as more competitive business economical activities. Grouping industry in Indonesia has been based on medium term of national development of Indonesia (RPJMN 2010-2014). Clusters of manufacturing industry consists of industry clusters drive economic growth as in clusters of food and beverage industry, textile industry and textile products and footwear industry, industrial electronics and electronic components, transportation equipment industry and automotive components. The deepening of industry clusters including manufacture of telecommunications equipment and informatics, manufacture of basic metals and machinery, petrochemical industry. Clusters leading recipient of foreign exchange as well as processing industry of agricultural, animal husbandry, and forestry, seafood processing industry and maritime, based creative industries and local cultural traditions. Industrial agglomeration based on its industrial core competencies of excellence; hence, each region has its industrial sectors competitiveness. These conditions should be in accordance with such business requirements as in raw material

availability, technology application, market opportunity, and available professional workforce beneficial for competing business.

The regional industry agglomeration benefits for economical activities, excellence cost for producers and consumers (Todaro and Smith, 2006). The existence of industrial park would be beneficial for government and companies due to closer linkage between industries would really affects other industries development and accelerating economic growth, industrial urban society consumption would affect investment growth, these condition is the closest answer to industrial agglomeration economies of scale activities and results to business operational cost savings. Industrial agglomeration would lead to easier to obtain raw materials for company's operations as well as infrastructure, roads and complete supporting facilities such as transportations, electricity, telephone networks, gas, water networks, drainage, banks, restaurants, sports fields, places of worship, schools, hotels, apartments, housing, and other facilities. Industrial agglomeration in Karawang is lucrative due to easier to get skillful laborer, managerial skill and warehouses. Usually firms investment decisions based on three factors, *firstly*, sale of goods prediction depends on market demand analyses, *secondly*, the payment of investment interest rate should be less than income or profits, *thirdly*, investment economic growth future expectation (Paul A. Samuelson and William D. Nordhaus, 2005). Economic growth may increase when economic activities are using the latest technology supported by security and political stability. Companies profit forecast would depend on its type of favorable industry prospects. The ample availability of production factors and lucrative market makes manufacturing industry in Indonesia prospectus domestic and globally. To select industrial location can be beneficial when it has already had some adequate infrastructure establishment and other supporting facilities.

Continuously improving investment would possibly generate state economic growth progress could lead to a GDP formation in Indonesia. Economic growth continuity increases may provide investment products market opportunities continuously increasing due to increased purchasing power improvements (Warren J. Kegan, 1995). The higher the investment growth may lead to higher state economic growth and firms would more motivate to execute marketing activities in the international level. The economic growth trend of Indonesia predicted will continuously increasing, according to some economical data, the economic growth of Indonesia has increased significantly within a period of 6 years, in the year 2009 economic growth at about 4.8%, in 2010 around 5.9% growth in the year 2011 growth at 6.5%, 2012 economic growth predicted would reach 7.2%, in 2013 would be 7.4% growth and in the year 2014 predicted economical growth would reach 7.4% (National Chamber of Commerce and Industry of Indonesia/ KADIN). Nevertheless some condition should be vigilant are security and political stability against foreign investors entry, political turmoil, strife among various segments of society and regions, the existence of large-scale demonstrations that often occur in various regions may lead to large government spending and consequently would have an impact on domestic economical stability, therefore in the period of 2009-2014 the government of Indonesia has agreed to keep

the country's political stability, and protect foreign investors as a warrant of domestic and international investment improvement plan. However in a close correlation of economical progress, the political stability and security in Indonesia has improved (Faisal Basri and Haris Munandar, 2009) the government of Indonesia were able to control various terrorist groups, even recognized by many international countries that the Detachment 88 of Police has great unity and are very effective for terrorism mitigation and prevention program almost equal level activities skill as the United States FBI, England Scotland Yard, as well as Sin Beth Israel. In essence, the president SBY has been succeeded in managing political stability in Indonesia peacefully.

Utilization of new technologies has been conducted in goods production processes efficiency, develop product changes, transfer of technology to improve capabilities in selecting technology appropriate to the conditions. Hopefully, the investment growth in Karawang region would really affects the transfer of technology concept to domestic economy technical condition. These activities could possibly lead to geographical transfer of technology across the Indonesia archipelago, the technological transfer considered as happening when foreign technology has been implemented in a factory owned by foreign direct investment, although the operational engine runs by foreign power, but miles away of locations experience such technology, hence it could be considered as the transfer of technology has happened around such factory establishment location. Transfer of technology could possibly execute to the local workforce. The transfer of technology considered has been executed when local manpower has been able to run the machines, set the input-output scheme. Transmission and diffusion of technology, the technology spreads to other units of local production units through sub-contracting activities and other way of dissemination. Development and adaptation of technology, the local workforce understands these technologies, adapt and modify for specific purposes in various local area. The success of technology transfer means that the local workforce would be able to develop a new technique based on imported technology. In Indonesia, the new technology utilization through technology development strategy have been executed top down, this would mean that the government of Indonesia is open minded to use foreign investors latest technology. In the long run, the application of new technologies should be encouraged to carry out research and technological development, and apply industrial research and development to improve high competitive ability.

Karawang region geographically locates between 107.02'-107.40' East Longitude and 505.62'-603.40' South Latitude. Karawang geographical location relatively low with the slope 2-15%, small hilly area slopes above 40% has population 2,055,469 people, consists of 1,042,846 male 1,012,623 female, the population sex ratio in Karawang region is 102,98. This would mean male population is almost proportional to the women. Compared to 2006 the population is 2,009,647 people, hence, there is population increases 45,822 inhabitants. It shows a population growth 2.28%. Meanwhile, the population target growth rate in 2010 is 2.12%, so by 2010 the number of people in Karawang has estimated 2,181,412 inhabitants. Meanwhile,

current population level density is 1172 inhabitants per km². The labor force in Karawang in 2010 has targeted 997,830 people, the employment is 922,993 people and some 74,837 has unemployed. Gradually the number of unemployed people has decreased; the unemployment number target in Karawang year 2010 is 7.5% of the total workforce. The infrastructure development to support economic development in Karawang would include transportation system, irrigation system, energy, telecommunications and housing infrastructure. Irrigation System in Karawang basically has already established. Urban and district water services supplied by using pipeline system, water sources are irrigation channels, deep wells and springs. The water production has been sold to non-commercial group consists of residential area and government institutions 89.96%, small commercial shops 3.75% and big commercial entity for tourism 0.49%, social groups as well as hospitals, schools, mosques and churches 1.55%, other public 2.31% and the industrial 1.95%. Karawang region has 1,173,760 KVA electrical connections in 2005 a part of Java-Bali electrical interconnection. Karawang region has state roads network, provincial roads and district roads. Country road length is 43.066 km in good quality conditions, good quality provincial roads 70% of 48.35 km, the other 30% is in damaged condition. District road network 2.606,486 km, good road conditions 40%, moderate condition 25% and 35% damaged condition. Karawang region has 135 bridges, 79 bridges in good condition, and 56 other are in damaged condition. All parts of Karawang region have telecommunication networks. The telephone subscriber are 37.390 in the year 2005, public phone are 911 units. Hence, the data shows Karawang region is potential for industrial areas focused on manufacturing industry development to improve national economic activities of Indonesia; this step is probably good prospect to face competitive industrial globalization, this condition may drive manufacturing industries of Indonesia more competitive with using industrial cluster strategic development.

3. Industrial Area as Investment Instrument

Industrial area is areas dominated by industrial activities (The Urban Land Institute, 1975), (US National Industrial Zoning Committee's, 1967). Industrial area complemented by a number of facilities consisting of industrial plants, equipment manufacturers, laboratory research for development, office buildings, banks, and other infrastructure such as social and public facilities including offices, housing, schools, places of worship, open space and others. The industrial area is the region where the concentration of industrial activities which are equipped with infrastructure and support facilities (Presidential Decree of Indonesia, No. 41 year 1996). Industrial area is developed and maintained by the company industrial area which bear business license. The understanding of industrial zones is a unit of geographic area as a place of growth and development of industrial activities, either basic industries or downstream industries.

The requirements are having 20 hectare of land at minimum, with the status of right to build (HGB) in the form of parcel of lands ready to build. It should have facilities

and infrastructure including road networks, water channel, clean water installation, distribution networks and power plants, telecommunication distribution networks, industrial waste water collection channel, installation of waste treatment, storage, solid waste, street lighting, fire fighting units and industrial park fences. There should be supporting facilities; industrial area has required building the supporting infrastructure therein including manager's office, post office, telecommunications services, clinic, cafeteria, religious facilities, employee housing industry and transit mess, postal security, physical fitness facilities, and bus stops public transportation. Managing industrial zone should be executed by the company itself. The management company is a legal entity established in accordance to laws in Indonesia and located in Indonesia, which is appointed by and accept the rights and liabilities of special industrial area to carry out the management of part or all of the industrial park. Discipline of industrial area are the regulations set by the company regional industry, which regulate the rights and obligations of corporate industrial park, industrial estate management companies and industrial companies in managing and utilization of the industrial area. The industrial area has the permit required environmental impact analysis (EIA). This permit is absolutely necessary because there are many factories producing waste while in their operational production process. To minimize the waste environmental impacts, the factories production should strictly in accordance to national waste regulations. A company which would like to operate in industrial area is required to have an industrial area business license. Industrial companies which are operating in the industrial area would have ease of licensing, such as: free of EIA license, free of disturbance permit (HO), establishment of industrial buildings could be executed although building permit is still in administration process.

Karawang International Industrial City (KIIC) is an international industrial area and manages by the management of PT. Maligi Gem Industrial Estate development and management company of industrial zones KIIC. There are more than 70 mills inside the KIIC industrial area some of them are Toyota, Yamaha, Sharp, and Panasonic. Some supporting facilities are constantly being developed as in apartments, training center, commerce center, golf courses, housing, Japanese restaurant with ISO 9001, ISO 14001 quality standards, Indonesia restaurants, banks. KIIC industrial area has 780 ha overall land area, 341 ha have been sold out. Some lands ready to build for sale 204 Ha. On July 15, 2010, President Yudhoyono and the governor of West Java have visited the KIIC industry region to visit PT. Toyota Motor Manufacturing production facilities.

Bukit Indah City industrial zone manages by PT Besland Pertiwi and PT Indah Indotaisei, it has strategic location with Jakarta – Bandung toll road access, 55 km distance from Tanjung Priok seaport and Sukarno Hatta international airport, high quality roads for cargo transportation, water treatment capacity of 250 liter per second, 30 MW power supply and backup generators, natural gas supply, commercial facility, street lighting, banks, meeting room, mini market, rest area, restaurant, container rental.

Kujang Cikampek industrial zone or Kawasan Industri Kujang Cikampek (KIKC) is a subsidiary of PT Pupuk Kujang located in Cikampek. KIKC manages the industrial park, it covers 140 hectare of business and residential equipped clean air and green trees natural surroundings. Local temperature range from 23' to 35' Celsius, 73% to 94% humidity, and north to south wind flows, road access Cikampek - Jakarta and Jakarta - Bandung interchange toll road only 1.5 km away from exit toll Dawuan Cikampek (km 68), 70 km away from Jakarta and 60 km from Bandung. Available power and close to Institut Teknologi Bandung (ITB) and the University of Padjadjaran (UNPAD) centers of excellence with beautiful green healthy environment working and residential.

Management area leases the land from 5000 m2 to over 1 acre for a minimum 5 to 30 years and renewable, land lease price is quite reasonable, it is about US\$ 2.50/ m2 per year suitable for warehouse or lease and build to order the standard factory building services plant, it has availability of roads, bridges, paving and surfacing, building factories, warehouses, mechanical and electrical, piping, equipment establishment. Industrial land facilities comprises a standard voltage electricity 220V/1PH/50Hz, 380V/3PH/50Hz. PT Telkom phone lines, PT Trajectory Natural Gas Pipeline, PGN and Pertamina, PT Pupuk Kujang water purification unit is available as each company quality requirements. There are also available corporate environment maintenance such as street lighting, channels, greening and landscape. Sports facilities: tennis, badminton, soccer, swimming pool and volleyball, schools: kindergarten to junior high schools, mosques, conference hall, hotels and guest houses, golf course, car rental and integrated security systems.

Mitra Industrial Zone or Kawasan Industri Mitra (KIM), located in Parungmulya village, West Java, has total area ± 500 Hectare. It starts to operate in 1992 and sells 11 blocks of 174 plots. Road in Industrial Area Mitrakarawang (KIM) consists of two types, main road and secondary roads to support the industrial infrastructure, facilitates with clean water network, sewage networks, power station, gas distribution networks, telephone networks, information networks. This area has water system namely Tarum Barat river, clean water installation, clean water distribution networks, sewage systems. The industry clusters consists of automotive cluster namely PT. Honda Prospect Motor, PT. Asama Indonesia Mfg., PT. Mitrametal Perkasa, PT. Chemco Hope archipelago, Textile cluster namely PT. Nikawa Textile Industry, PT. Kariy Indomas Elegant, Iron and Steel Factory; PT. United Steel Center Indonesia, PT. Of Steel Pipe Industry of Indonesia, PT. Silica Tochu Indonesia, PT. Dunie Transsindo Express Limited. Great Jakarta Maju Perkasa, PT. Arka Jaya Mandiri.

Surya Cipta Industrial Zone, PT Suryacipta Swadaya has been built in 1990 as a subsidiary of PT Surya Semesta Internusa Tbk. Surya Internusa group has diversified its business as real estate, construction, building materials, and hotel industry. Suryacipta is focusing its business in development of industrial estate management. It has operated since 1995 with the name Kota Industry Suryacipta which is actively developing 1,400 hectare of land for industrial parcel of land with complete infrastructures. It locates at 55 km east of Jakarta, having Cikampek –

Jakarta toll road direct access. In the first phase in the year 1994 has been sold 80% parcel of land equal to 500 hectare. In the second phase of 1997 has been built parcel of land 500 hectare ready to build standard manufacture. In the third phase in the year 2001 has developed 224 hectare industrial parcel of land. Suryacipta has some infrastructures as in roads, drainage, water network, electric network, telephone, and gaseous. Utility power supply PLN 300 MVA, 3000 telephone network of Telkom, water treatment plant. Other facilities are residential housing, dormitory, polyclinic, banks, canteen, fire brigade, green area, commercial area, public facilities, and security.

Companies located in the industrial zone will gain production process benefit as there is abundant and relatively easy production factor procurement for more efficient production process, the mutual inter-industry linkages, availability of professionals, and complete supporting infrastructure which would be able producing large scale of production to reduce the cost of production becomes cheaper and cheaper transportation for employees. With such industrial areas the government of Indonesia would possibly get some benefits as this specific industrial area would be a center of industry generating economic growth of Indonesia. Another advantage for the government of Indonesia is that such industrial areas would be promotional strategy for the government attracts some investors developing their industry in Indonesia.

4. Investment Climate and Licensing

It is very important for investors to understand comprehensively the investment climate in certain country investment destination, certain basic question might be important to address what specific condition probably profitable to execute foreign investment and what is the general economical and political condition of the designated country before investment to be decided. There should be law certainty and stability, guarantee of license issuance, existence of corruption and bribery prohibition, protection of trade mark and patent, clarity and certainty of tax payment, ease of permission, proper competition practice control, pricing control, export and import value control, trading practice control, labeling control, manpower arrangement, advertising contents arrangement and control Warren J. Keegan (1995). All of the laws should be understand comprehensively to protect the business practice and advancing new business.

The government of Indonesia has executed some actions; *first*, judicature system improvements, a cause of buried economical is justice factor, weakness of laws institution, weaknesses of laws enforcement. These are a cause of obstacles of legal action justice; hence there should be availability of professional law enforcer benefit for investors business, *second*, a good and proper laws would be able creating good competitive business climate that attractive for doing business, *third*, good investment climate supported by banking sector ease credit disbursement would really increase investor interest to enlarge their business activity, *fourth*, ample infrastructure would provide comfortable business activity and increasing productivity and investment climate improvement, *fifth*, corruption, collusion and nepotism should be eliminated

due to obstructing investment climate, *sixth*, government have to open broader access to capital resources, to guarantee a macro economical stability, improve competency, guarantee debtor's rights, creditor and share owners, facilitating information flows to ensure that banks would not taking too many risks. Economical stability especially the low inflation, continuous credit disbursement and realistic foreign exchange are important basic for effective money market. The good governance simplifying license procedures would possibly improve investment climate. The action of technical standard should have transparency process in accordance with objective criteria; such technical standard should be informed to all society. The guarantee for foreign investors have been backed up by government ordinance number 25 year 2007 regarding capital investment, in section 4 article stated that the government motivates foreign capital investment conducive national business climate creation, provide equal treatment, guarantee certainty of laws and safety of business starts from license arrangement process up to capital investment activities has been finished in accordance with state ordinance. The government would not execute the right removal of capital investment ownership or nationalization except in accordance with the ordinance. Section 7 article 1 government ordinance number 20 year 2007 states that in case a nationalization of removal of capital investment ownership, hence the government would provide ample compensation in accordance to market price, and even in article 8 states that capital investor could shift ownership of assets to some certain party as needed in accordance with regulations and legislation. The investor has provided the right to repatriation transfer of foreign exchange regarding capital, profit, bank interest, dividend, and capital to buy materials for production, work in process goods, finished goods, capital credit repayment, royalty, or cost should be paid. In article 10 states that capital investor company has the right to use foreign expert for certain profession and position in accordance with regulations and legislation. Other government support to foreign investment is providing fiscal policy facility for investors who invest in strategic work of the economy of Indonesia as well as absorbing workers business activities, infrastructure development, transfer of technology, pioneer industry, environmental preservation, small and micro business miter or cooperative, business that using local capital or using local made machinery. Such facilities is in accordance with section 18 article 4 and article 5 is income tax deduction through reduction of net income to a certain point, dispensation of entry excise for capital goods import, machinery or production tools that could not be made yet locally or dispensation of material or auxiliary material import excise for certain time production, dispensation or import value added tax deferment for capital goods import or machinery or production tools that could not be made yet locally for the certain of time.

The government of Indonesia is also providing ease of permission as well as permission of right of land, immigration services, and import permission. Section 22 article 1 states that the right of land for business has been given 95 years and could be advance extended for 60 years, and could be renewed for 35 years. Right of use of building permit provided 50 years and renewable for 30 years, right of use provided

permit 70 years, advance renew 45 years, and renewable 25 years, and then such right of land could be given to investor who comply with requirements of competitive economical structural changing of Indonesia, investor who bear the risk of long term capital return has not oblige to possess large area, safe for society's interest and are not disturbing social justice and are not contravene to land legislation.

The ease of immigration services provided to fulfill the need of temporary foreign workers as well as machinery reparation and other auxiliary and foreign worker for after sales service. Section 23 article 2 and 3, states that investors would be given limited stay permit 2 years, and then would be given permanent resident for 2 years after continually stay for 2 years, and would be given some reentry permit for limited permit bearer after 1 year stay. The investor should really aware to many aspects before making a decision to invest in Indonesia. They can develop a certain company located in Indonesia locally, decides certain business sector they would like to engage in with regard to negative list for investment a list of some business sectors prohibited for foreign or domestic businessmen. Next step is investor should apply investment plan to the National Investment board of Indonesia (BKPM) in Jakarta, the application document would be analyze in terms of some factors mainly capital ability and technical aspects and other information. Such evaluation process would need 10 working days. The company is legally operating when the license has already accepted. The next step is operation of investment, the BKPM would issue license permit regarding acceptance plan for foreign workers (RPTKA), foreigners working permit (IMTA), custom acceptance, and limited import identification certificate (APIT), permanent business license (IUT). The city or regency government would issue location permit, building construction permit, nuisance act permit and land right license. For these permits the investor could apply to one door integrated service office (PTSP) would provide easy and fast and cheap services due to good corporate governance reforms.

5. Investment Risks and Social Responsibility

The investment risk is very important for investor to be vigilant; a comprehensive risks analysis should be conducted before a decision of investment would be made. The balancing between profit and risks are necessary to be analysis in the first place. The unexpected risks are often experienced by businessmen when practicing their business (Iman Suharto, 2002). The investment objective is to attain some profits in the future, nevertheless there should be a thorough analysis with regard to unexpected risks probably occurred. The smaller opportunity to get profit and some probability of losses would mean the business is having significant risks. Risk could be translated that there is uncertainty which may creating some business losses. This includes capital risk, transaction, market, exchange rate, liquidity, credits, human resources management, assets, reputation, laws and society (Bramantyo Djohanputro, 2008), international corporation or multinational corporation usually transact 24 hour in business, when such transaction using foreign exchange would have correlate to

exchange value which could not be executed in a slow decisional matter, this would probably cause losses. The market variables along the liquidity process are always changing continuously, and the company should always execute an adjustment mark to market. Market risk consists of rate of interest, exchange value, commodity and equity. Interest rate risk would correlate with foreign exchange transaction; commodity risk would regard to credit transaction of commodity or forward trading, futures, equity risk with regard to share index. Capital risk of investment is capital procurement from equity of share holder or credit that both have the risk. The equity owned by the company has its costs of equity, share owner expecting a dividend yield higher compare to other investment income, unless the share would be change to other investment forms. Credit risk means the rate of interest that sometimes fluctuates high and lower, this could possibly burden the company's business operations. The human resource risk in a manufacture industry is personnel productivity producing something, to overcome human resource risk could be executed by human resource management that indicating the employee's satisfaction, the higher employee's satisfaction the higher productivity. Assets risk could be in the form of building damage due to earth quake, fire, vehicle crash, thief, broke down machinery and electricity. To overcome such risk the company should be ready with some capital. Reputation risk is related to the ruin of the company's good image due to unprofessional management of company's performance in terms of internal and external communications. Law risk could be happen in some failure preparation of business contract, nevertheless this could be a very sensitive case and possibly causing severe problems for the company's operations. Social risk could be happen when the company careless to the society surrounding location, this would include recruitment failure to include surrounding society in company recruitment activities and company's lack of society's services. Maybe for newborn company are not aware to risks, to understand and vigilant to the risk getting information or informational exchange with some other company is advises, the data of risk could be primary or secondary data and measuring the risk using some certain methods.

Societal and environmental risk is merely an important point should be understand comprehensively by a company due to significantly influencing the company beneficial possibility and company's continuity of business. Corporate social responsibility (CSR) is a partnership of company with the stakeholder to perform in developing the country's economy to be able more competitive, green environment and society welfare. The company's activity is not only profit motive but developing social economy and environment holistic and integrated. Some understanding of corporate social responsibility is namely corporate giving, corporate philanthropy, corporate community relations and corporate community development. Corporate giving motivation is charity, corporate philanthropy have a motive of humanity and corporate community relation compose a good relationship with the environment, community development characterized with environmental usefulness and sustainable development with the objective of developing economic growth of the country to preserve the environment and social justice. CSR in Indonesia has already popular

since 1990, some companies have been executed company's social activities have a role company's concern to social and environmental aspects. CSR program hopefully could help to lessen the poverty, reducing unemployment and driving up the economic growth nationally. According to state ordinance number 25 year 2007 regarding capital investment section 15 company obliges to execute the company social responsibility, state ordinance number 40 year 2007 regarding company limited section 74 article 1 stated that company which business related to natural resources obliges to execute social responsibility and environmental protection in accordance to country's legislation. CSR intends to society welfare; improve environment restoration; driving clean and responsible business; positive contribution to local society specifically and generally to all society nationally; to form positive image of society as a whole to business activities.

In Karawang regency has been formed coordinating team to control CSR execution with specific duty to conduct research regarding social and environmental problem surrounding the company's location. Such coordinating team has duty to verify CSR plan regarding society's needs, continuity development dissemination through CSR program to company's surrounded Karawang regency which are not yet executing the CSR in Karawang regency, to formulate some action guidelines regarding CSR planning, funding, control, evaluation, accountability of CSR forms as reports to the functionary importance. The CSR objectives are continuity of development in accordance with company's surrounding regarding economical, social and environmental, personal or organization which is not funding by the government funds in the province or regions. The CSR principles are transparency to every public aspect, accountability, justice, participative, adherence to laws, human rights maintenance.

The CSR in Karawang regency has been executed by PT. Asia Pasific Fibers located in Kiara Payung village, Klari subdistrict, Karawang region. This company producing synthetic fiber basic textile materials, in October 2011 has been executing some program as well as building nursing care center with complete facilities in society's health center of Klari's sub district, preparing clean water supply in society's health center of Curug, Klari's sub district, to distribute nutrition foods for children, provide health center facilities in Klari subdistrict, providing a standby car for health center in Kiara Payung village, build religious facilities in Duren Klari. How can investor answer such question that investment risk and social responsibility to be formulated and investment would be profitable but preserving the environment. Industrial investment should be profitable for the investors and provide economical welfare for local society as a whole.

Industrial sector investment is merely a business opportunity and beneficial for the scientifically economy development and probably creating some other new theories regarding industrial economy and economic development. The industrial agglomeration in some district possibly creating economical scale of production and furthermore production process efficiency. The industrial agglomeration would possibly developing and improving production marketing, and even driving and accelerating local economic

growth. Investment climate concept would be able to explain further the specific preparation previous to investment execution. Industrial sector investment would really creating professional employment, transfer of technology process, national productivity growth, and improving industrial management capability to be more survive.

A specific chapter of industrial sector management science is important to support industrial investment management practically, the new born of professional community of industrial sector investment is urgently needed today. Hence it is timely to prepare a specific study regarding such matter. This would be very important for economical faculty for really developing industrial economical science and economic development with regard to industrial agglomeration concept, investment climate, investment risk and social responsibility.

6. Conclusion

Industrial sector investment in Indonesia is really lucrative, many foreign investors are coming to Indonesia and it is merely a sign of building manufacture challenging investment in Indonesia. Foreign investors have considered that Indonesia has comparative advantage in terms of production factors, and production marketing. The support of government of Indonesia for foreign investors is significantly high. Such matter is clearly can be observe due to some government of Indonesia guarantee for safety, comfortable, political stability, ease of industrial facility, ease of licensing issuance, and tax dispensation.

Industrial sector investment is a positive and lucrative possibility for business and economic theoretically and probably could create newborn economical theory in terms of industrial economy and economical development theories. The industrial agglomeration in a certain districts is merely a concept of determining economical scale of production efficiency investment location, industrial agglomeration possibly developing production marketing and accelerating domestic economic growth. A certain beneficial condition should be analyze and be prepared properly before the investment is going to be executed. Industrial investment creates new professional employment possibility, transfer technology, investment management capability improvement.

A new scientifically concept is badly needed to manage better industrial sector investment and an advance study regarding such matter is timely to be develop mainly specifically study on industrial agglomeration, investment climate, risk and social responsibility.

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