Optimizing the Role of Law on Preventing Hidrance to Investment on Special Economic Zone: A Study on Special Economic Zone SeiMangkei, North Sumatera

Budiman Ginting¹, Rosnidar Sembiring¹, Mahmul Siregar¹, and Afrita Abduh¹
¹Faculty of Law, Universitas Sumatera Utara, Jl. Universitas No. 4, Medan, Indonesia

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Abstract: The role of law on economic development lies on the ability of the law itself to give a certainty, predictability and stability. Those kinds of law will be able to reduce or abolish a nonproductive cost which businessman bears. Legal certainty which has yet to be materialized in the Special Economic Zone on Sei Mangkei has a huge potential of becoming a hindrance towards the investments on Special Economic Zone Sei Mangkei. This situation occurs owing to the fact that in general, the norms of positive laws on managing the Special Economic Zone SeiMangkei has yet to be implemented upon. Various weaknesses on implementing law on Special Economic Zone SeiMangkei causes the competitiveness on business world and Special Economic Zone SeiMangkei’s attractiveness to be less. A support from all stakeholders’ dan law is needed to make Special Economic Zone SeiMangkei of having a significant role on the national and regional economics.

1 INTRODUCTION

The impartiality between the cost needed on chasing the economic growth and the ability to finance it independently, encourage countries to involve roles and funds of national private company and foreign company on financing the economic development. The most common way done is to invite the foreign and domestic investors to conduct a direct investment. This view causes a competitiveness to lure domestic funds and foreign funds to conduct a direct investment. Countries compete to give out ease off service, fiscal and non-fiscal facility on investments. Liberalization of the investments becomes an inevitability on political law on investments in various countries. Amongst all of the procedures that countries use, the establishment of a strategic economic zone is the most frequent procedure that a country uses. This procedure kept on developing, and now a days it is known as Special Economic Zone.

Special Economic Zone has an important role on improving the economy especially in the industrial sector, where Special Economic Zone is capable of creating an improvement of technology, improvement of national productivity and structural transformation (Asian Economic Integration Report, 2015). With the existence of Special Economic Zone it is expected that the community able to utilize that policy itself to improve the economy (Scheepers, 2012). Coenrad Muller Screepers mentioned that Special Economic Zone constitutes as one of many tools that is used by host countries to promote trades, economic development and to lure investments (Tambunan, 2001).

In Indonesia, the term Special Economic Zone was introduced on the 2007 constitution. The term was used on Chapter XIV, Article 31 on Law Number 25 of 2007 on Investments. Article 31 point (1) of that constitution mentioned that to fasten the economic development on certain strategic areas for the national economic development and to secure the balance of a region’s development, a Special Economic Zone could be set and develop. The next two years Law No. 39 of 2009 on Special Economic Zone was made.

Since Law No. 39 of 2009 was made until now, Indonesia has developed 10 Special Economic Zone which was spread almost throughout all of the main islands in Indonesia, such as Sumatra, Java, Sulawesi, Kalimantan, Maluku, Bangka Belitung dan Papua. The development of Special Economic Zone directly caused the spreading of infrastructure development investments on various areas in Indonesia. The impartiality of development between Pulau Jawa and...
3 RESULT AND DISCUSSION

3.1 The Framework of Law on Special Economic Zone in Indonesia

According to the World Bank, Special Economic Zone is made out of, an area that is geographically restricted with a separated area of customs, under the supervision of the administrator, and that the benefits may be felt by those who lived inside the zone itself. In other words, Special Economic Zone is a zone where the government was expecting to raise the economic growth through the increasing of exports and investments also providing various competitive advantage for the entity who chose to locate within the zone (Rizal, 2015). That definition is relevant to the regulation under Article 1 point (1) of the Law No. 39 of 2009 defines a Special Economic Zone as a specially regulated zone that is located within the jurisdiction of The Republic Of Indonesia which is set to carry out an economical function and to receive certain facilities.

The Politics of Law that that underlines the existence of Special Economic Zone is to attract the interest of investors to conduct a direct investment which promises a number of regulatory exclusivities, the ease of service and fiscal facility inside Special Economic Zone. Therefore, the enforcement of investment services in Special Economic Zone was released from the government bureaucratic networks that forms their own institution on managing the Special Economic Zone. According to Law No. 39/2009 this institution consists of: National Council, District Council, and District Administrator. Through the structure of One Stop Service (PTSP), District Administrator plays a very strategic role in operating stages. This institution received an abundance of authority from all of the ministry regarding the non-department government institution, provincial and regency/city government. With this method, a long bureaucratic networking will be abolished owing to the fact that all relating affairs regarding investments inside the Special Economic Zone falls into the authority of District Administrator. And of course, this is expected to be an attracting factor owing to the fact that this will reduce the transaction cost for the investor.

To support the enforcement of Special Economic Zone, the Indonesian Government has created a number of constitutions. No less than 50 constitutions have been made, from Law up until Government Ordinance has been created to support the Special Economic Zone. Furthermore, Regional Regulation which is a law created by province and regency/city government, in Sei Mangkei, North Sumatera.
where the Special Economic Zone was located wasn’t included amongst the number of constitutions mentioned above. Those constitutions, mainly regulates: (a). Special Economic Zone’s Operations, (b). The Establishment of Special Economic Zone, (c). Businesses within the Special Economic Zone (d). Fiscal and Non-Fiscal Activities, (e). One Stop Service, (f). Foreign Labor Usage, (g). Delegation of Authority to the Regional Administrator (h). Permits.

3.2 Law as a Support to Attract Investors to Invest in the Special Economic Zone

Adi Sulistiyono mentioned that one of the important laws that law plays a part in supporting the economic development is the law’s ability to decrease of abolish non-productive cost that society and business world bears. A good set of law should be able to decrease or even abolish those non-productive cost, rather than to create the non-productive cost mentioned. This role played by law through one of its principle, which is legal certainty. Legal certainty will drive the law itself to the existence of predictability in economic affairs (Sulistiyono, 2007). The problem is that up until now the main weakness of law that is mostly encountered by businessman in Indonesia is the uncertainty of the law itself. Even though legal certainty is needed as well to calculate and anticipate risks involved, in fact, legal certainty in a country is one of the factors that drives the durability of the economy itself (Sulistiyono, 2007).

Numerous Laws has been made to support the existence of Special Economic Zone in Indonesia with the expectations to attract investors both domestic and foreign. Various product of law has been made to create a certain condition to attract investments in Special Economic Zone, which are:

3.2.1 The Negative Investments List (DNI) Was Not Enforced Generally within the Special Economic Zone

DNI is a list of businesses that was closed for investment affairs in Indonesia. DNI determines the conditions that has to be met for the investors in order to conduct investments in Indonesia. Those conditions regulate: the restrictions of foreign shareholders, the substitute of certain businesses for micro businesses, small, medium and cooperation, the obligation to conduct a partnership with the local community, and certain conditions according to the constitutions. Currently, the DNI is regulated under Government Presidential Decree No. 44 of 2016. The advantage of Special Economic Zone is that DNI is not enforced in the Special Economic Zone. In other words, all businesses are open, (except those that has been restricted by the constitutions itself) and all of the conditions that has been set by DNI is not required for businesses within the Special Economic Zone.

3.2.2 The Ease of Goods Traffic

The inflow of goods to Special Economic Zone has yet to be regulated its restrictions on imported goods, whereas for the outflow of goods from Special Economic Zone to Customs areas, the regulations to restrict imported goods apply.

3.2.3 The Ease of Labor

In Special Economic Zone, Wage Council and Tripartite Coorperation Institution. Other ease is that in Special Economic Zone there is only 1 (one) Labor Union Forum in every company. Legitimizing and extending the Plans to Employ Foreign Labor (RPTKA) is enforced in Special Economic Zone, so that it will not involve a long and winding administration process. It also applies to the extension of Foreign Labor Employment Permit (IMTA) which is also enforced in Special Economic Zone.

3.2.4 The Ease of Immigration

Visitor’s Visa on 30 days period and it could be extended 5 (five) times 30 days each. Multiple entry Visa for foreigners and their families. Special Visa or residence permit for foreigners are given to foreigners who owns any property inside the Special Economic Zone. And, elderly foreigners who lives inside the Special Economic Zone is also given special visas and a residence permit.

3.2.5 The Ease of Landowning

For Businesses/businessman that receive a Building Rights (HGB) or Right to Use may extend and renew their rights up to 80 years after it was declared producing/operation commercially. In case of property ownership, the extension and renewing HakPakai may be given until the next 80 years to every property that is owned legally.
3.2.6 Property Ownership for Foreigners within Tourism Special Economic Zone

Foreigners/Foreign Businesses may own a property in Special Economic Zone (Houses or Flats) through the Right to Use or Ownership Rights on Flats. Property owners in Special Economic Zone may be given a residence permit with Special Economic Zone Administrator as a guarantor. Moreover, taxes (Sales Tax on Luxury Goods dan Value Added Tax) may be given free of charge for luxurious goods.

3.2.7 Tourism as the Main Activity

The form of ease such as: Duty Free, PDRI is not collected on the inflow of goods outside the customs areas, free of charge for the excise taxes of auxiliary materials for a non-excise goods. Shops in tourism Special Economic Zone may participate in tax refund activities for foreign passport holders (duty free shop).

3.2.8 The Ease of Permissions

Special Economic Zone Administrator is authorized to issue a principle permissions and business permissions through one step service in Special Economic Zone. The acceleration of issuing the permission must be conducted 3 hours at the very least (in case if all conditions met). The process and the completion of permits non permits of immigration, labor, and landowning are solely done by the Special Economic Zone Administrator.

3.3 SeiMangkei Special Economic Zone

Development plans on SeiMangkei Special Economic Zone started on 2008. During that time, PTPN III (Persero) intended to build an industrial district that was mainly for the development of all PTPN III branches and PTPN III owned strategic business unit palm oil downstream industry. This plan was later agreed upon by the Minister of State Owned Enterprises (BUMN) as the full shareholder of PTPN III created a Ministerial Decree of State Owned Enterprises (BUMN) No. S-465/MBU/2008 dated 30th of May 2008 on Industrial Zone Development Agreement. During that time, Law No. 39 of 2009 on Special Economic Zone was yet to be created, so up until then the terminology used is industrial district.

In the year 2009 Law No. 39 of 2009 on Special Economic Zone (Special Economic Zone Law) was created. The advantage of Special Economic Zone which is more compared to an industrial district caught the attention of the government to change the status of Sei Mangkei. Industrial District to SeiMangkei. Special Economic Zone. On the 27th of February 2012 the Government regulated SeiMangkei. Industrial District to Sei Mangkei. Special Economic Zone on Government Ordinance No. 29 Of 2012 on Sei Mangkei Industrial Sector. A year later, PTPN III (Persero) was appointed as Sei Mangkei Development and Administrator. Special Economic Zone based on Simalungun’s Regent Decree No. 188.45/193/Bppd dated 30th January 2013.

To support the operations of SeiMangkei. Special Economic Zone, PT, Perkebunan Nusantara III (Persero) as Development and Administrator Businesses has develop various infrastructures within the Special Economic Zone. Also, the Central Government has started building a number of regional infrastructures outside SeiMangkei. Special Economic Zone in order to support SeiMangkei. Special Economic Zone operations such as: GarduInduk PT PLN kapasitas 60 MW, gas pipes transmissions network from Belawan – SeiMangkei, multipurpose harbour Kuala Tanjung, Nasional roads access SeiMangkei – Kuala Tanjung Harbour / Belawan, railroads access from SeiMangkei – Pelabuhan Kuala Tanjung / Belawan and Kuala Namu international airport.

SeiMangkei. Special Economic Zone has enough potential on both national and regional economic development. It is estimated that the total investments in SeiMangkei. Special Economic Zone will reach the sum of Rp. 46 trillion from the year 2012 until 2031. The investment commitments from the investors until 2014 has reach Rp. 6.5 trillion. Whilst the support from the government itself has reached Rp. 2.9 trillion, to develop a regional infrastructure until 2017, such as railroads, bulk docks, and roads. SeiMangkei. Special Economic Zone is targeted to absorb up to 979.000 labors up until the year 2031. It is expected every year to be receiving an income tax up to Rp. 363 billion. With the total of investments and the absorption of labors of that magnitude, therefore it is not an exaggeration if the people of North Sumatera and especially the people of Simalungun and its surroundings to expect the SeiMangkei. Special Economic Zone to give a multiplier effect to the regional economic itself. A number of businesses will be developing as well in line with the operations on SeiMangkei. Special Economic Zone.
3.4 The Role of SeiMangkei Special Economic Zone on Palm Oil Downstream Industrial Development

One of the important roles of SeiMangkei. Special Economic Zone is to develop the Palm Oil Downstream Industrial Development in North Sumatera. The palm oil plantation in North Sumatera has a massive potential to produce palm oil itself. However, there has been a weakness that has often been found, which is; that the palm oil plantation businesses in North Sumatera still rely way too much on the premier commodity which is the palm oil. This causes the value added to profits becomes relatively small if compared to the processing of derivative products of palm oil from the downstream industry.

The existence of SeiMangkei. Special Economic Zone with various infrastructures and investment facilities guaranteed by the law as well as the guarantee of more than enough available raw materials is expected to attract the investors to invest in the palm oil downstream industrial sector. With this method, the benefits of Special Economic Zone to the national and regional economy will be even better. The reliance upon the local and export sales of raw palm oil with a relatively small profits may finally be overcoming.

3.5 The Hindrances of Law on Investment Affairs on SeiMangkei Special Economic Zone

Asian Development Bank stated that the hindrances on investments that has been felt by the investors in Indonesia is: (i) the uncertainty of the economic policy and regulations, also the macro economy instability; (ii) Corruption, both the central government officials and regional government officials; (iii) The labor regulations, which is more of a problem rather than the quality of the labors itself; (iv) Financing cost, becomes more of a problem rather than the access itself; (v) High rate taxes, becomes more of a problem rather than the tax administration and customs itself; and (vi) The availability of infrastructures (Asian Development Bank, 2005).

This study is mainly focused on the hindrances suffered by the law itself that existed on the enforcement of investment activities within SeiMangkei. Special Economic Zone. Several problems that occurs from the regulating and the implementing the laws on SeiMangkei. Special Economic Zone are;

3.5.1 Implementing Law Number 18 of 2008 on Waste Management

According to the Law No. 18 of 2008 on Waste Management in conjunction with Article 18 Point 1, Government Ordinance No. 81 Of 2012 on Domestic Waste Management and Similar Domestic Waste stated that waste collecting is done by: a. settlement management, commercial district, industrial district, special district, public facility, social facility, and other facilities; and b. regency/city government. Furthermore on point (2) it is stated that settlement management, commercial district, industrial district, special district, public facility, social facility, and other facility in conducting waste management must provide: a. Place of Waste Management; b. Place of Waste Management including Reuse, Reduce and Recycle; and/or c. the device to collect different sets of trash.

The problem on waste management that is commonly complained by the investors and managers in SeiMangkei. Special Economic Zone, based on the interviews conducted, the investors within the SeiMangkei. Special Economic Zone mentioned that there isn’t any landfill side of the wastes that has been produced by the industries inside the Special Economic Zone, this causes many accusations from non-government institution stating that the businesses activities within the Special Economic Zone dispose their wastes on the Bah Bolon River which later causes pollution. Also, according to an informant from the Manager of SeiMangkei. Special Economic Zone the Regency Government must provide a landfill side for wastes that were produced by the businesses conducted within the Special Economic Zone.

With the SeiMangkei. Special Economic Zone operating and the tenant has invested on the Special Economic Zone itself, it is a necessity to provide a landfill side location. According to Article 19 point (2) Government Ordinance No. 81 Of 2012 stated that the Regency/City Government on conducting waste management according to point (1): a. provide tools to manage wastes including the separated wastes that did not cause any harm to the environment; and b. conduct a waste transportation from Place of Waste Management and/or Place of Waste Management including Reuse, Reduce and Recycle to Landfill Side.
3.5.2 Implementing the Government Ordinance No. 96 of 2015 on Amenity and Facilities in Special Economic Zone

This Government Ordinance No. 96/2015 on Amenity and Facilities in Special Economic Zone has yet to run as it’s supposed to. The Simalungun Regency Government has yet to respond with the introduction of any regulations regarding the matter. Therefore, the region tax and retribution facility is yet to be enjoyed by the investors and Sei Mangkei administrator. Special Economic Zone. Also, there has yet to be introduced instructions (juklak) under the Government Ordinance Number 96 Of 2015 on ease and facility in Special Economic Zone, so the investors that are operating within the Sei Mangkei Special Economic Zone were complaining that the Government Ordinance No. 96 Of 2015 benefits cannot be enjoyed yet by the investors because it has yet to be enforced, so, this particular predicament causes different perceptions between the tenant and Sei Mangkei. Administrator Special Economic Zone.

Sei Mangkei. Administrator Special Economic Zone complains about the ease of taxes that is actually regulated on Government Ordinance Amenity and Facilities in Special Economic Zone, however in reality, the conversion of the land status on Sei Mangkei. Special Economic Zone was firstly a Right of Tenure (HGU) becoming Right of Management Certificate Number 1 Of 2014 this causes a raise in region taxes, even though the land that was used for Sei Mangkei. Special Economic Zone purposes has only been used around 200 acres from a land that has the size of 2000 acres, also the land conditions are mostly palm oil plants that is yet to be an industrial site. The magnitude of the tax increase with the status of HPL reaches the sum of Rp. 8 billion, when it was originally when the status of Sei Mangkei. Special Economic Zone was a HGU is at Rp. 2 billion, and after it converted to HPL, the taxes rise to a sum of Rp. 10 billion. Sei Mangkei. Administrator. Special Economic Zone feels that there has to be an incentive from the Regional Government (such as: decreasing/abolishing PBB and BPHTB) in a form of constitution to attract investors to invest on Sei Mangkei. Special Economic Zone.

3.5.3 Implementing Government Ordinance No. 101 Of 2014 on Dangerous and Poisonous Waste (B3) in Sei Mangkei Special Economic Zone

According to Article 3-point (1) Government Ordinance No. 101 Of 2014 Dangerous and Poisonous Waste (B3) in Sei Mangkei Special Economic Zone stated that everyone who produces B3 wastes must conduct a management on that very B3 waste. B3 waste management must be integrated owing to the fact that it may be a health hazard towards the humanity, other living things and the environment itself. A company that produces B3 wastes are responsible since it was produced until it was annihilated (from cradle to grave) with managing it internally and rightly as well as assuring that all parties relating to managing B3 wastes are competent and met any requirements given. And because of that, ideally a Special Economic Zone in its site must be operated with a various B3 waste management facility to protect the both society and environmental interests.

One of the investor’s expectation is that there will be an infrastructure solely to manage the B3 wastes in North Sumatera or its vicinity. Investors who produces B3 wastes and its management currently transported and manage by a third party in Cileungsi, West Java. This predicament causes a relatively high fee on the company's operations.

3.5.4 Implementing Presidential Decree No. 97 of 2014 on Enforcement of One Stop Service Sei Mangkei Special Economic Zone

Article 25-point (5) Law No. 25 of 2007 on Investments stated that the permits on investments shall be obtained through the One Stop Service (PTSP). One Stop Service was intended to help investors on obtaining the the ease of services, fiscal facility, and information about investments itself. One Stop Service is done by an institution that are authorized in the investment field and that institution was delegated by an institution who authorizes permits and non-permits on both Province and regency/city. Furthermore, it is mentioned that the regulations about the enforcement of One Stop Service was regulated on Presidential Decree. Furthermore, article 23 point (2) Special Economic Zone Law again mentioned that the enforcement of One Stop Service (PTSP) particularly on the investment activities within Sei Mangkei. Special Economic Zone. It is also mentioned that the
enforcement of giving away permits within the Special Economic Zone was done through One Stop Service. And to materialize this service, Presidential Decree No. 97 of 2014 on Enforcement of One Stop Service, was created.

According to a number of informant’s analysis and interviews, PTSP in SeiMangkei, Special Economic Zone has yet to work optimally, this causes several conditions such as permit affairs and non-permit affairs are hampered, winding, and bureaucratic. This is because not all of the authorization on services has been delegated to the Regional Administrator and other predicament is regarding the knowledge and the legal culture of the Regional Administrator officials.

3.6 Optimizing the Role of Law within SeiMangkei, Special Economic Zone

A good set of law will support the development of the economy within the Special Economic Zone, and vice versa, a law may be the cause that hampers the economic development. The way that it should be is that the law created predictability and stability on supporting the economic development. According to the study conducted on SeiMangkei, Special Economic Zone there are several things that are still needed to be looked after, such as the law has yet to give any optimal support on driving the economic development forward through the existence of Special Economic Zone.

A legal certainty is very much needed. Not only in a form of norms inside the constitutions. Legal certainty is evident from the implementation of legal norms that has been formulated formally through the constitutions. Various constitutions that has formally supported the economic development within the Special Economic Zone will not be effective if it wasn’t implemented in the right way.

According to this study, there still has to be various legal activities needed to optimize the role of positive law to drive the Special Economic Zone forward, especially the SeiMangkei, Special Economic Zone. This predicament may not be only suffered by SeiMangkei, Special Economic Zone, but this may also happen to other Special Economic Zones, therefore, it clear that this predicament has a potential to be a significant hindrance in the future.

4 CONCLUSION AND RECOMMENDATION

The success of the accelerated government economic development program through the Special Economic Zone development is well supported by the law itself. The failure of law in this case may hampers the economic development and it will become factor that creates a transaction cost. This condition may decrease the attention of the investors this is because it will fail to create a decent competition for investors to invest.

The results in SeiMangkei, Special Economic Zone study showed that there are still a number of legal problems that needed to be sorted out. At the very least, there are four legal problems in SeiMangkei, Special Economic Zone that has an impact on the investment activities within the area, which is; the constitutions is yet to be implemented properly, for instance Law Number 18/2008 on Waste Management, Government Ordinance No. 96/2015 on Amenity And Facilities of Special Economic Zone, implementation of Government Ordinance No. 101 Of 2014 on Dangerous and Poisonous Waste (B3) in Special Economic Zone and Presidential Decree No. 97 Of 2014 on Enforcement of One Stop Service In Sei Mangkei Special Economic Zone. These problems have the potential to create a transaction cost for the investors that will later decrease the business competitiveness and the attraction of SeiMangkei, Special Economic Zone.

It is advised for any official stake holders, from central, Province, and Regency to optimize their roles on supporting the existence of SeiMangkei, Special Economic Zone. Various enforcing regulations must be made and implemented. The delegation of authority to the Special Economic Zone Administrator must soon be materialized comprehensively and to the areas that needed the support attract the investors through investment incentives according to the authority of the area itself.

REFERENCES


