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Article

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Powering the Future:

Indonesia's Potential as a Regional AI Data Center Hub

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INTRODUCTION

Artificial intelligence ("**AI**") has rapidly become a foundation of today's digital economy, driving unprecedented demand for computing power. Meeting this demand requires more than advanced software; it depends on robust physical infrastructure, including AI data centers supported by reliable power, suitable land, and advanced computing equipment.

As established data center hubs such as Northern Virginia in the United States and the FLAPD markets (Frankfurt, London, Amsterdam, Paris, and Dublin) face mounting constraints on land availability, power capacity, and grid connectivity, global investors are expanding their search for new locations capable of supporting large-scale AI infrastructure. The race is no longer about identifying opportunities; it is about securing critical resources before they become difficult to obtain. Amidst these conditions, Indonesia has emerged as a compelling destination, offering the competitive advantages needed to enable sustained digital infrastructure investment.

This article explores why Indonesia is emerging as a regional AI data center hub, the legal and regulatory considerations investors should address, and how strategic legal planning can support successful execution.

THE GLOBAL SHIFT TOWARDS AI INFRASTRUCTURE

The rapid rise of AI is reshaping how technology companies invest in digital infrastructure. Unlike conventional data centers, AI facilities require substantially greater computing capacity, specialized hardware, reliable long-term electricity, and significant capital investment. As these requirements continue to grow, global investment is shifting beyond traditional data center markets toward jurisdictions that can accommodate hyperscale AI developments.

WHY INDONESIA IS EMERGING AS A REGIONAL AI DATA CENTER HUB

Unlike mature AI infrastructure markets where prime land, power allocation, and key local partnerships have largely been secured, Indonesia remains at an earlier stage of market development. Early entrants may benefit from greater flexibility in selecting project locations, securing long-term power arrangements, establishing local partnerships, and influencing project structures before market competition intensifies.

WHY INDONESIA IS EMERGING AS A REGIONAL AI DATA CENTER HUB

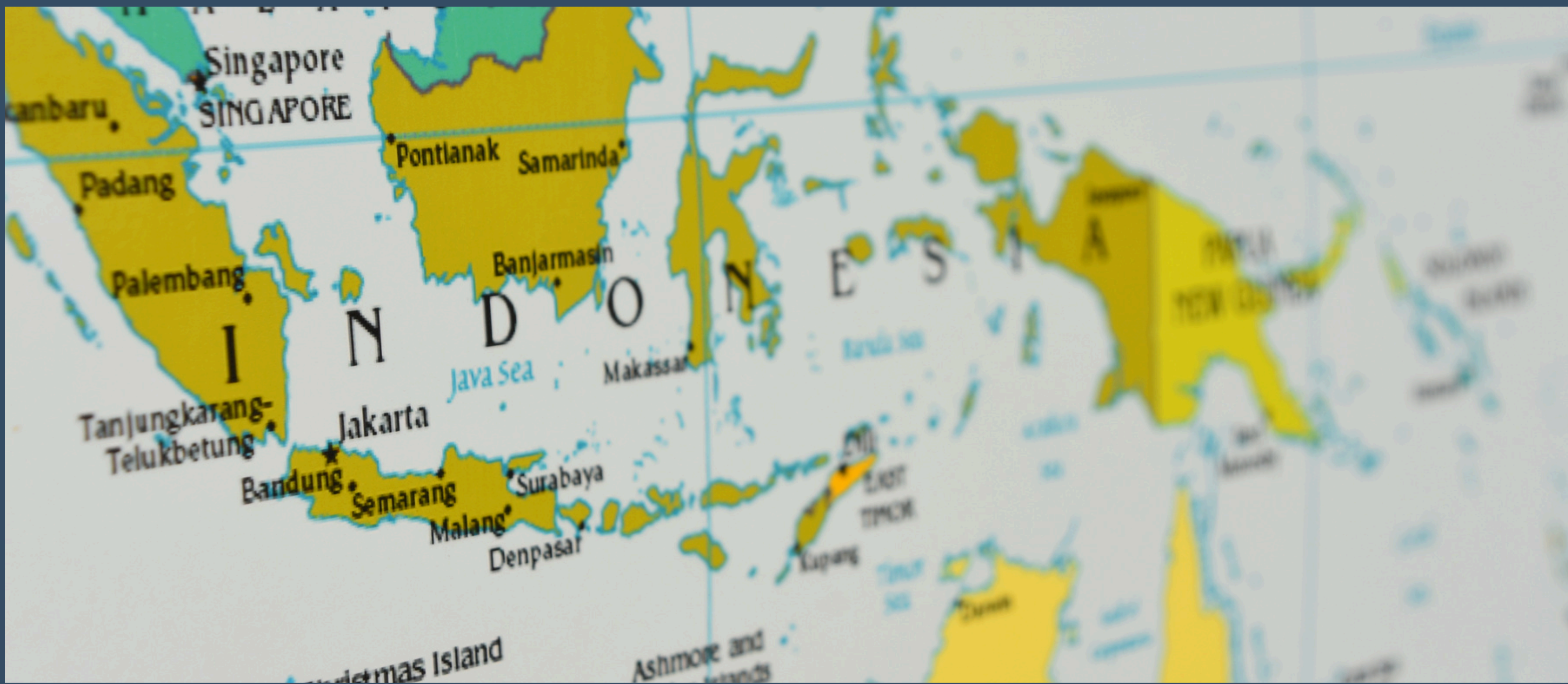
These first-mover opportunities are reinforced by several commercial and strategic advantages, including:

1. Large-Scale Development Opportunities

Industrial regions such as Karawang, West Java, offer large contiguous land suitable for hyperscale data center developments. As competition for strategically located industrial sites continues to increase, investors that plan ahead may have greater flexibility in securing locations that align with future operational requirements.

2. Supportive Legal and Regulatory Environment

Unlike jurisdictions with highly prescriptive AI regulations, Indonesia's regulatory framework remains relatively principles-based. While this requires careful legal assessment, it also provides investors with greater flexibility to structure projects and adapt business models as the market evolves.



WHY INDONESIA IS EMERGING AS A REGIONAL AI DATA CENTER HUB

3. Reliable and Competitive Power Infrastructure

Reliable and cost-effective electricity is essential for AI data center operations. Indonesia offers highly competitive industrial tariffs together with expanding power infrastructure, supporting long-standing operational efficiency.

4. A Rapidly Growing Digital Economy

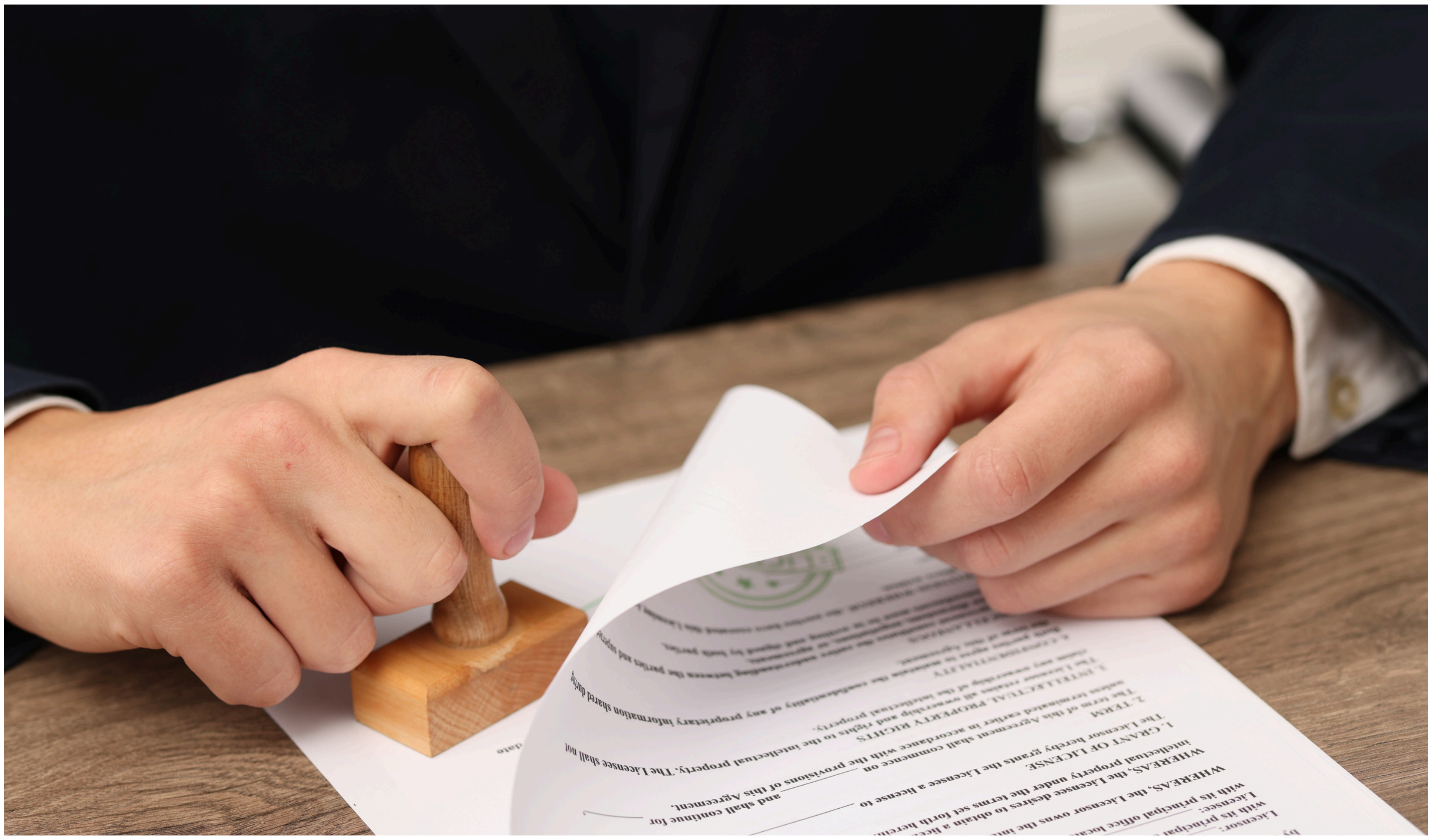
Indonesia is home to one of Southeast Asia's largest digital economies. Ongoing growth in internet usage, cloud computing, e-commerce, and AI adoption is creating sustained demand for advanced digital infrastructure.

5. Regional Connectivity

Indonesia's location at the center of Southeast Asia enables investors to combine international expertise with access to one of the world's fastest-growing digital markets, making it an attractive base for regional AI infrastructure operations.

KEY LEGAL AND REGULATORY CONSIDERATIONS

For investors, Indonesia's opportunity lies not only in demand growth, but also in the ability to secure core project inputs early: suitable industrial land, reliable power access, licensing pathways, and local implementation partners. In a sector where delays in site acquisition, grid connection, and regulatory approvals can materially affect project economics, early legal and commercial structuring can be a decisive advantage.



AI infrastructure projects rarely involve a single regulatory issue. Investment structuring, licensing, customs, construction, technology transfer, data governance, and coordination with multiple government authorities often need to be addressed in parallel. Misalignment in one area can delay progress across the entire project.

KEY LEGAL AND REGULATORY CONSIDERATIONS

1. Corporate and Investment Framework

Choosing the wrong investment structure or business classification (Klasifikasi Baku Lapangan Usaha Indonesia or KBLI) at the initial stage may affect licensing eligibility, operational scope, and future expansion plans. Appropriate legal structuring helps avoid costly restructuring after the project has commenced.

2. Trade and Customs Requirements

Incorrect Harmonized System (HS) Code classification for modular AI infrastructure or specialized computing equipment may result in customs disputes, unexpected duties, shipment delays, or additional compliance requirements.

3. Technology and Regulatory Compliance

Certain project components may trigger Local Content (Tingkat Komponen Dalam Negeri or TKDN) considerations. Understanding these requirements early on enables investors to structure procurement strategies that minimize compliance risks while preserving project timelines.

KEY LEGAL AND REGULATORY CONSIDERATIONS

4. Land Acquisitions and Asset Structuring

Securing suitable land is often one of the most critical steps in AI data center development. Investors should assess land status, zoning, spatial planning conformity, title ownership, land use restrictions, access rights, environmental considerations, and the appropriate acquisition or long-term control structure. Early legal due diligence helps confirm whether a site can support the intended development and whether land rights can be structured as a stable project asset.

5. Construction Activities Licensing

Foreign engineering and construction participants may need to collaborate with locally licensed construction service entities (Badan Usaha Jasa Konstruksi Nasional or BUJKN). Failure to structure these arrangements appropriately can delay implementation and licensing.

AN ILLUSTRATION: STRUCTURING A LARGE-SCALE AI INFRASTRUCTURE PARTNERSHIP

Indonesia's potential is already reflected in emerging cross-border investment opportunities. To illustrate how these developments are taking shape in practice, PRS has advised on a proposed collaboration between an Indonesian technology company and an international AI infrastructure developer for the development of AI data center facilities in West Java.

Under the proposed collaboration, the international partner was to contribute modular AI data center technology, engineering expertise, and technology transfer, while the Indonesian partner was to oversee local engineering, procurement, construction, manufacturing, and regulatory implementation.

Transactions of this nature require comprehensive legal support across multiple workstreams, including site and land assessment, transaction documentation, Indonesian legal and regulatory advice, coordination with international counsel, and implementation support across the project lifecycle.

CONCLUSION

Indonesia presents a compelling opportunity for AI data center investment, supported by its growing digital economy, expanding infrastructure, and evolving regulatory landscape. Realizing this opportunity, however, requires careful legal planning from the beginning. Drawing on our experience in cross-border infrastructure and technology matters, PRS is committed to assisting investors in navigating Indonesia's evolving regulatory landscape through practical, commercially focused legal advice.

HOW PRS CAN ASSIST

Pasaka Rievan Smith – Counsellors at Law (PRS) provides integrated legal support across the development of AI data center projects, including:

- **Transaction Documentation & Negotiation:** Preparing and negotiating preliminary agreements, definitive agreements, and other transaction documents supporting collaborations between Indonesian and international commercial partners.

- **Land Acquisition and Asset Structuring:** Land Due Diligence to assess land status, zoning, spatial planning conformity, title ownership, land use restrictions, access rights, environmental considerations, and the appropriate acquisition or long-term control structure.

- **Investment Structuring, KBLI & Licensing:** Advising on Indonesia's foreign investment framework, business licensing requirements, and other compliance matters relevant to AI data center projects, reviewing business activities, assessing applicable KBLI classifications, and advising on licensing requirements.

- **Customs & Import Compliance:** Advising on HS Code classifications and import requirements for AI data center systems, specialized equipment, and related technologies.

- **Stakeholder Coordination & Implementation:** Coordinating with relevant stakeholders to ensure legal requirements are appropriately reflected throughout transaction documentation and project implementation.

About Us

Pasaka Rievan Smith - Counsellors at Law ("**PRS**") is comprised of a team of dedicated and trusted lawyers with over 20 years of experience in the legal industry, spanning law firms, multinational corporations, and government institutions. We provide prompt, precise legal counsel and opinions, offering both legal and commercial perspectives to support corporate clients. Confident in our ability to meet the diverse needs of our clients, PRS enables them to focus on achieving their business objectives. With experience in assisting start-ups, growing enterprises, established organizations, and family-owned businesses, we are committed to delivering both personal and professional attention, ensuring the utmost satisfaction for our clients.

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