Government of Batam City's Strategy in Implementing SEZ Policy

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Abstract: Regional autonomy, FTZ, KEK, institutional dualism, and special autonomy One of Indonesia's cities with the quickest growth is Batam. The Batam Authority, now known as BP Batam, constructed Batam Island in the 1970s, and it has since grown and gained a number of economic advantages. The issues Batam City is currently experiencing have existed since Batam implemented regional autonomy. An institutional dualism with the BCG, which had existed since the 1970s, evolved as a result of the BCG's arrival in 2000. The BCG served as the regional autonomy's executor and had a very strong legal and political standing. This study's goal is to acquire a general understanding of the difficulties that the City is now facing. One essential role of regional governments in the planning of regional development is their capacity to manage and implement regional development projects. Because the success of the process of managing government and development operations in the region is dependent on the regional government. In Manatuto District, the community, village, village council, sub-district, and regional stakeholders are involved at the beginning of the regional development planning process. The community was unhappy when it looked at the central government's procedure for approving regional planning papers because it found that it was not based on the planning documents that were submitted to the central government. This study’s objectives were to: a) Describe and examine the function of local government as an entrepreneur, coordinator, facilitator.

Keywords: Institutional Dualism, Regional Autonomy, Free Trade Zone (FTZ), Special Economic Zone (SEZ), Special Autonomy

Introduction

Batam Island has been recognized as a special region since the 1970s, during its early development stages, due to the implementation of distinct policies that set it apart from other regions in Indonesia(Rahmafitria et al., 2019). Thanks to its unique planning, Batam has become one of the fastest-growing cities in Indonesia. When the Batam Authority (now known as BP Batam) created the city in the 1970s, there were only around 6,000 residents(Makgetla, 2021). Forty years later, the population of Batam surged 158 times by 2010 and has since grown by over 300 times. This reality became evident in the 2000s when foreign direct investment (FDI) into Indonesia declined due to crisis. Unlike other
regions in Indonesia, Batam continued to be a desirable location for foreign investment. One of Batam’s economic advantages is being one of the few areas in Indonesia that has never experienced a recession. This fact became particularly clear in the 2000s when FDI into Indonesia declined due to the crisis, yet Batam remained a popular FDI destination (Adam, 2019).

B.J. Habibie from the Batam Authority preferred Batam during its peak. His visionary leadership transformed Batam into a globally recognized industrial center. Serving as the head of the Batam Authority for 20 years, B.J. Habibie successfully turned Batam Island from wilderness into a major industrial hub in the Asia-Pacific region. Top-notch facilities were crucial infrastructure needed in the industrial zone. In the 1990s, Batam’s industrial and commercial sectors experienced tremendous growth, evidenced by an average annual economic growth rate of 17%, peaking at 31.28% in 1991 (Alexianu et al., 2019). The commercial sector on Batam Island flourished before BJ Habibie’s term ended in 1998 when he was elected Vice President of the Republic of Indonesia. Despite the economic crisis in Indonesia, Batam Island’s investment climate remained largely unaffected. However, by the end of his tenure, Batam’s economy had not yet transformed into a high-tech sector (Setiawan et al., 2022).

Batam is one of the provinces in Indonesia that has never experienced a recession. Its economy grew more than 3% while the national economic growth plummeted to minus 13.1% in the late 1990s. Throughout the 1990s, Batam’s economic expansion often exceeded national targets (Benjatanawat et al., 2021). It’s noteworthy that migrants and job seekers from various parts of Indonesia are drawn to Batam. Evidence shows that annual population growth has surpassed 15% over the past decade (Local, n.d.). According to various studies and previous research, the main issues in Batam City existed before regional autonomy was implemented. In the year 2000, when the Batam City Government, formerly the Batam Authority (OB), was established, it became the sole developer on Batam Island and held a strong legal and political position, causing institutional dualism. The establishment of the Batam Authority (BP) since the 1970s created conflicts over jurisdiction in various areas of Batam, particularly concerning permits, land management, assets, and others. This duality has led to several problems and had a negative impact overall (Tiza, Hakim, & Haryono, 2014).

Since the emergence of institutional dualism between the Batam City Government and the Batam Authority, various efforts have been made, including those by the Central Government, to organize the uniqueness and special status of Batam City while still implementing regional autonomy policies on the other side (Rodríguez-Pose et al., 2022). According to field studies, several stakeholders, including internal stakeholders of the Batam Authority and local business owners, ensure they enforce the Free Trade Zone
(FTZ) policy that has been in place in Batam since the 1970s. Post the advent of regional autonomy, various parties have endeavored to preserve and strengthen the existence of the FTZ de jure through laws and government regulations. This explains the events from 2000 to 2007.

Despite the implementation of Presidential Decree (Keppres) Number 8 of 2016 regarding Free Trade Zones and the Free Port Council (PBPB), the status quo has been maintained with the implementation of new Government policies, particularly the establishment of Special Economic Zones (SEZs) in Batam(Hu, 2021). After a six-month transition period, the Government will transform the Batam Zone from a Free Trade Zone (FTZ) into a Special Economic Zone (SEZ) in the form of an enclave (bonded zone). Businesses that have utilized FTZ facilities for at least 5 (five) years will still be granted permission by the Government to relocate their operations to the SEZ area.

Considering the Free Trade Zone Law issued in 2007 stipulates that the establishment of the Batam FTZ will be valid for 70 (seventy) years from implementation, some Batam entrepreneurs view this development as evidence of consistency from the central government(Abagna, 2023). As a result, the law regarding Batam’s status has been distributed. Additionally, some business actors are skeptical about the implementation of SEZs because Batam had a similar experience with SEZ-like areas in 2004, which failed and only lasted one year in implementation, leading to their pessimism(Zeng, 2022). Government Regulation No. 63 of 2003, which took effect in January 2004, was based on an idea similar to SEZs (Science & Dan, 2015).

Methodology

In this research, several methods of data collection and referencing were employed to gain a comprehensive understanding of the current issues faced by Batam City(Zeng, 2022). The first source involved secondary data gathered from previous research, audits, and studies. Many organizations and institutions such as the ISEI Batam Study (2011), Bank Indonesia Batam Study (2011), reports from the Batam Authority, Batam City’s Central Statistics Bureau (BPS), among others, have conducted relevant research on this matter(Cotula & Mouan, 2021).

The second source comprised direct information obtained through surveys and interviews with Batam residents considered knowledgeable about the city and its policies(Mösle, 2019). These individuals included representatives from the Batam City Government, the Batam Authority, the Chamber of Commerce and Industry of the Riau Islands, the Batam City Regional People’s Representative Council (DPRD), as well as entrepreneurs and other business community members(Chen et al., 2021). The study also involved surveys of Batam residents to understand the general public’s perceptions of the
ongoing issues (Davies & Mazhikeyev, 2019). These methods were employed to substantiate statements made by authoritative and scholarly sources throughout this research (Pangemanan et al., 2023).

**Result and Discussion**

**Identifying Issues in Batam: Expert Opinions on Issues in Batam**

In this analysis, those considered to have a comprehensive understanding of the issues in Batam and the ability to think critically and objectively are referred to as experts or expert respondents. Academics, business representatives, community observers in Batam, journalists, business representatives, and professionals—including lawyers, experts, and urban planners—were selected as expert respondents. According to expert respondents, institutional dualism and/or overlapping jurisdiction between the Batam City Government and the Batam Authority are fundamental issues in Batam. Due to Batam's frequent regulatory changes, legal certainty becomes a primary concern. Additionally, Batam currently faces several social issues as well as declining investment, economic growth, and competitiveness (Farhan, Razma, & Amalia, 2017).

<table>
<thead>
<tr>
<th>No.</th>
<th>Issues in Batam</th>
<th>According to Experts</th>
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<tbody>
<tr>
<td>1.</td>
<td>Institutional dualism or jurisdictional overlap between the Batam City Government and the Batam Authority.</td>
<td>Fundamental issue.</td>
</tr>
<tr>
<td>2.</td>
<td>Due to frequent policy changes in Batam and the long-term policy orientation, there is legal ambiguity.</td>
<td>Concerns about legal certainty.</td>
</tr>
<tr>
<td>3.</td>
<td>Economic development and investment are declining in Batam.</td>
<td>Identified issue.</td>
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</tbody>
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This table summarizes the key issues in Batam as perceived by expert respondents or specialists in various fields.

**Views on Issues in Batam from Business Players and the Industrial Sector**

A survey of commercial players and industries worldwide was conducted using purposeful sampling (Ruocco & D’Auria, 2023), selecting 50 samples based on their type, scale, and operational spread across various industrial zones in Batam. Study findings indicate that institutional competition and/or power struggles between the Batam City Government and the Batam Authority are at the root of many city problems (Frick et al., 2019). Consequently, issues such as legal resistance, disputes, declining investment, and economic growth have emerged (Narula & Zhan, 2019). Batam has faced policy shifts, labor issues, declining competitiveness, and social challenges (Solution, 2012).
The role of the local government as a government stimulator can also act as a stimulus in business development with typical activities that can attract people from around the world to the area and keep them there (Qadir, 2019). As a motivator, the local government actively encourages its people to pursue wealth and honor (Shabbir et al., 2021). This can be done in several ways, including providing financial assistance or marketing regional goods at trade shows and in other print and electronic media about the resources presented in the Batam area (Mudibo, 2020). The government is considering how to address small businesses to improve the welfare of residents and create jobs (Soares, Nurpratiwi, & Makmur, 2015).

**Future Policy Alternatives for Batam: Perspectives on Policy Options in Batam from the Batam Community**

Using purposive sampling, the population of higher education institutions in Batam City was surveyed (Chen et al., 2021). Samples were selected based on age and education level, particularly those aged above 20 years with at least a Diploma (D3) or Bachelor’s (S1) degree, who are more knowledgeable about and aware of events in Batam. Additionally, sampling followed the average population and settlement area in each district of Batam (Kuznetsov & Kuznetsova, 2019).

Following the implementation of policies such as the Special Economic Zone (SEZ), Free Trade Zone (FTZ), the establishment of a Tourism City in Batam, and the application of special autonomy in Batam, the Batam community evaluates various alternative policies that can be implemented in Batam (Mwansa et al., 2020). The Batam Authority implements Batam policies (Batam City Government disbanded), and the Batam City Government establishes full autonomy like other Indonesian provinces between the 1970s and 1990s. Fifty samples were selected for a survey of business players and the industrial sector based on the nature and field of business and business location among the many industrial areas in Batam. The survey was conducted using purposive sampling (Karambakuwa et al., 2020).

Policies such as the Free Trade Zone (FTZ), Special Economic Zone (SEZ), and Special Autonomy (SA) have been successfully implemented by the city based on monitoring findings and feedback from the commercial and industrial world on various policy alternatives that can be adopted (Narula & Zhan, 2019). The next step is to transform Batam into an industrial area, reverting to Batam policies from the 1970s to the 1990s (when the Batam City Government was disbanded) and granting full authority to the Batam City Government, similar to other provinces in Indonesia (Yudiatmaja, Safitri, Maya, & Manalu, 2015).
Conclusion

Based on the analysis findings, particularly based on the opinions and perceptions of business community experts in Batam, there exists institutional dualism between the Batam City Government and the Batam Authority, as well as legal ambiguity due to frequent policy changes in the city. The main issues facing Batam include the long-term policy direction of Batam. Economic difficulties include loss of investment, slowing economic growth in Batam, employment and labor issues, and declining competitiveness of the archipelagic state. The list of social issues in Batam includes poverty levels, squatter settlements, and rapid reaction times. According to a study conducted by a small number of Batan residents, the primary issue was economics, especially in responding to issues that limit investment and hinder Batam’s economic expansion.

Though less well-known compared to economic issues, institutional dualism and law enforcement in Batam are considered crucial by local residents. Based on field research findings, most respondents believe that most of these issues are caused more by institutional dualism and legal exploitation that has developed in Batam since the abolition of regional autonomy in Batam.

Based on these study findings, Batam has various policy alternatives, including maintaining its status as an industrial hub, implementing Free Trade Zone (FTZ) policies, implementing Special Economic Zone (SEZ) policies, or solidifying itself as a city-state boosting tourism and advertising Batam’s special autonomy. Some groups also support the full autonomy of Pemko Batam and a return to the Batam Authority’s policies of the 1970s-1990s, followed in other areas of Indonesia.

References


