

# The Continuity of Batam Importance to the Development of BBK Region: A Regional Economic Perspective

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## ABSTRACT

The development of Batam as a special economic zone (SEZ) has been initiated for more than four decades ago. Despite its success, there has been limited study to analyze the impact of the SEZ to its peripheral. The Spatial Plan of Batam Bintan Karimun (BBK) is the only policy that regulating how the SEZ could benefit the peripheral area, the Bintan and Karimun regencies, and Tanjung Pinang city. The spatial plan (*Rencana Tata Ruang*) of BBK serves as the operationalization of the National Spatial Plan (*Rencana Tata Ruang Wilayah Nasional/RTRWN*) and as a coordination tool for development in the BBK area. In this regulation, the City Government can utilize the existing land in the BP Batam working area, although it must obey the existing scheme and get the permission of BP Batam as the manager of the Batam Area KPBPB. This study examines the current economic role of Batam in the BBK area. By using descriptive statistics and analysis of regulatory content, this study emphasizes the continuing importance of the role of Batam economically. This can be seen by utilizing international IT connections and encouraging investment attractions through diversification of new industrial subsectors, for example shipping, creative industries, ICT and FinTech.

**Keywords:** *Batam, BBK Development, Infrastructure, Special Economic Zone*

## 1. INTRODUCTION

The role of Batam city in supporting the Indonesian economy is regulated in Presidential Regulation No. 87 of 2011. However, there are several obstacles: dualism problem of the leadership of Batam city due to the existence of BP Batam and Batam City Government in managing bureaucracy, the existence of SEZ development plans likely colliding with KPBPB of Batam, and the economic growth of Batam City tending to decline from 2015.

The dualism of Batam City leadership has made the investors invest difficultly because of the complicated bureaucratic process (batampos.com). This condition is exacerbated by the declining economic growth rate in Batam City occurring in several sectors such as manufacturing, construction, transportation and warehousing, as well as financial and insurance services. There are two sectors with negative growth: water supply, waste management, waste and recycling and government administration, defense and mandatory social security.

With the above conditions, this paper aims to examine the extent to which the Batam development continuity is important to the BBK area. Using interviews,

content analysis of regulations and desk study this paper contributes to understanding the critical role Batam has on the BBK area. The paper deploys list of strategies and functions of the region in developing a productive, efficient and competitive national economy in the international economy, namely creating conducive investment climate in the fields of trade, maritime, industry, transportation, banking, tourism, and fisheries. These are considered to be able to be used as indicators that can influence the development and improvement of the functions of the Batam, Bintan and Karimun National Strategic Areas (KSN) in developing the national economy.

The paper is organized as follows: section two presents the literature and previous studies on Batam and its surrounding economy. In section three we provide research data and methodology. In section four we present the analysis and discussion, and followed by research conclusion in section five.

2. LITERATURE REVIEW

Batam is located in the Malacca Strait, which is one of the most populous shipping lanes in the world and the Indonesian Archipelago Sea Channel (ALKI) I, located in Western Indonesia. Batam is also strategic because it directly borders on the countries of Singapore and Malaysia (Johor) (Fig. 1). Furthermore, in demographic terms, the city also has the highest growth rate between 2010 and 2017, almost 5% annually and consists of more than 60% of total population in suggesting the city's attractiveness for labor and migrants (Fig. 2).

Figure 1 The Geostrategic Location of Batam

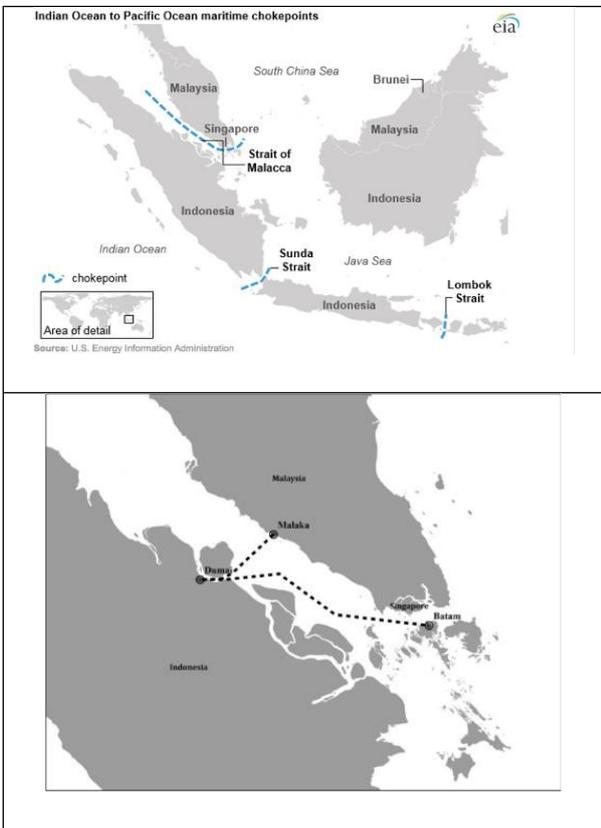
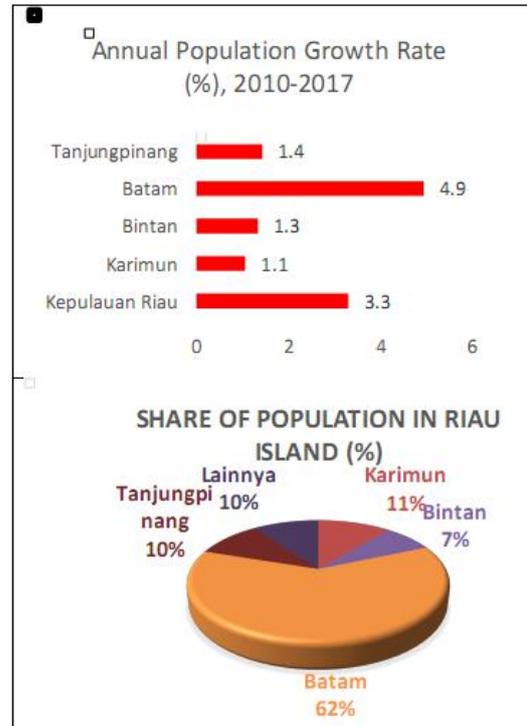


Figure 2 Batam Development



Based on the Republic of Indonesia's Law Number 46 Year 2007 concerning the Free Trade Zone and Free Port of Batam, Batam City has been designated as a Free Trade Zone and Free Port for a period of 70 years from the time the law was promulgated. These areas include Batam Island, Tonton Island, Setokok Island, Nipah Island, Rempang Island, Galang Island, and Galang Baru Island. Through this law in the Free Trade Zone and Free Port (KPBPB) Batam is prioritized to carry out activities in the economic field such as the trade, maritime, industry, transportation, banking, tourism, and other fields. Through this regulation the Batam Free Trade Zone and Free Port (KPBPB) Exploitation Agency was formed to manage the assets in the area. This regulation was updated through Regulation Number 5 of 2011 concerning Amendment to Government Regulation Number 46 of 2007 concerning Batam's Free Trade Zone and Free Port.

Subsequently in 2013 Presidential Decree Number 18 of 2013 concerning the Batam Free Port and Free Port Zone Council was formed. Batam Free Ports and Free Ports (KPBPB), hereinafter referred to as regional councils, have the duty and authority to determine public policy, foster, supervise and coordinate the activities of the Batam Free Trade Zone and Free Port Area (KPBPB). The regional council is chaired by the coordinating minister for the economy with its members being the interior minister, the minister of law and human rights, the minister of

finance, the minister of commerce, agrarian and spatial minister / head of the national land agency, the TNI commander, the head of the Indonesian police, the cabinet secretary, the governor of the Riau Islands, the chairman of the Riau Islands Province DPRD, and the mayor of Batam. The regional council reports the results of the implementation of its duties directly to the president at least once in six months and has served five years from the enactment of this regulation.

The status of Batam City as a Free Trade Zone and Free Port (KPBPB) allows any imported goods to enter into the area not subject to excise fees. This is one of the incentives provided by the government to attract investors in the Free Trade Zone and Free Port (KPBPB) Batam. As such, the Batam Free Trade Zone and Free Port (KPBPB) area is regarded as the Batam, Bintan and Karimun National Strategic Areas. The graph below illustrates the relationship between KPBPB Batam and KSN Batam, Bintan and Karimun (Fig 3).

**Figure 3** Illustration of Regulations on Batam and BBK Area



**3. METHODS**

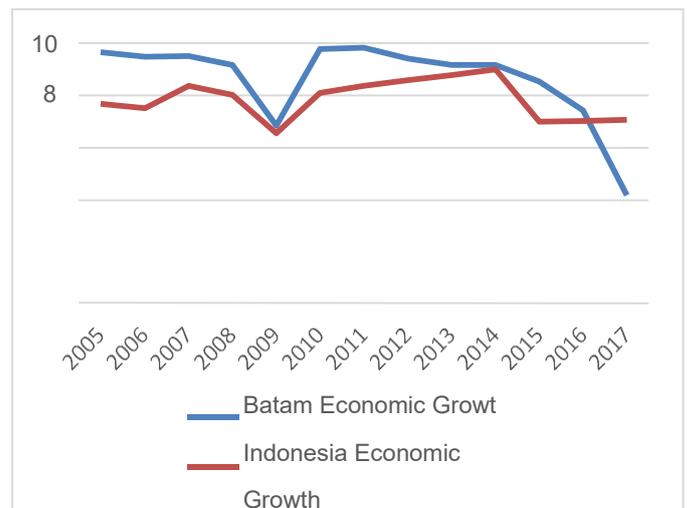
This paper uses a rich array of data including literature, regulations, statistical and interviews. The analysis was conducted with content analysis and descriptive statistics. We can refer to content analysis as a systematic and replicable testing of communication symbols, as these symbols are given numerical values based on valid measurements and analysis using statistical methods to describe communication, draw conclusions and provide context, both production and consumption. Meanwhile statistics descriptive is a statistics used to analyze data by describing the data collected as it is, without intending to draw conclusions applying to the public or generalizations.

**4. RESULTS AND DISCUSSIONS**

The development of Batam City is considered to have important role, relatively to other cities in Indonesia, which initially developed as a growth engine for Indonesia. This was seen as historically, Batam City economic growth has always been above the economic growth of Indonesia. However, since 2009 there was evidence that economic growth in the City and Indonesia following the global economic crisis has caused a decrease in demand

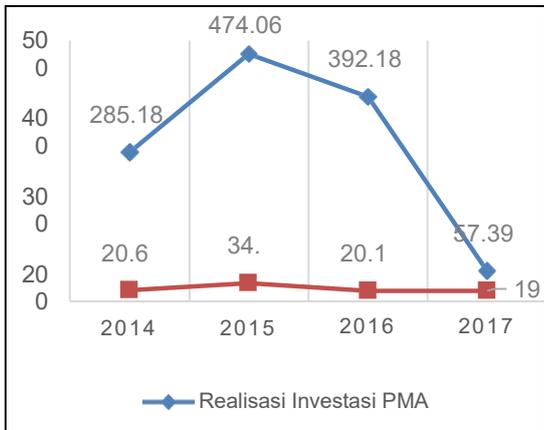
for export commodities. The city of Batam, which is the spearhead of exports of the manufacturing industry and shipyards in Indonesia, experienced low economic growth. In the following years, the economic growth of continued to decline until it reached its worst condition, which was at 2.19% in 2017. The economic growth of the City of Batam in 2017 for the first time was below the rate of economic growth of Indonesia which was at 5.23% (Fig. 4).

**Figure 4** Batam and Indonesia Annual Economic Growth rate (2005-2017)



In 2013 there was a deficit in Indonesia's trade balance of -4.077 billion US dollars. Indonesia's trade balance deficit also still occurred in 2014 amounting to -2.199 billion US dollars. The deficit in Indonesia's trade balance means that in 2013 and 2014 the amount of exports was smaller than imports. When Indonesia's trade balance was deficit in 2013 and 2014, the trade balance of Batam City experienced an increase in 2014. The economic growth of Batam City, which had fallen after the establishment of the Batam, Bintan and Karimun National Strategic Areas (KSN), also affected the number of investment in Batam City. The following is a diagram of the realization of PMA and PMDN in Batam City (Fig. 5)

**Figure 5** Foreign and Domestic Investment Realization (2005-2017)



The realization of FDI investment in 2014 stood at 285.183 million US dollars, which is almost half of the realization of FDI in 2014 amounted to 474.063 million US dollars. The status of Batam City as part of the Batam, Bintan and Karimun National Strategic Areas (KSN), in fact has no major influence on the economic growth of Batam City in terms of growth in the number of workers, the trade balance, the value of inflation, or the realization of FDI and PMDN investments. One possible explanation is that since the establishment of the Batam, Bintan and Karimun National Strategic Spatial Planning (KSN) in 2011, the economic growth of Batam City remains to decline.

The low exchange rate of the rupiah became the main source of economic decline, thereby impacting other sectors. The low rupiah exchange rate caused by the deficit of Indonesia's trade balance has led to an increase in commodity prices for raw materials for the manufacturing industry in Batam. This price increase forces the owner of the company to stabilize the company's finances. One way for companies to stabilize finances is by reducing labor. The reduction in the number of workers was chosen because the wages of workers in Batam City are relatively high.

.... while in Batam, the cost of labor is increasing, especially since people gets more competent. As they are good at their job, they also expect higher benefit, so it can't be equated now to that in the past, when the labors are cheaper. Yet it is important for investors to boost annual growth of SMEs.

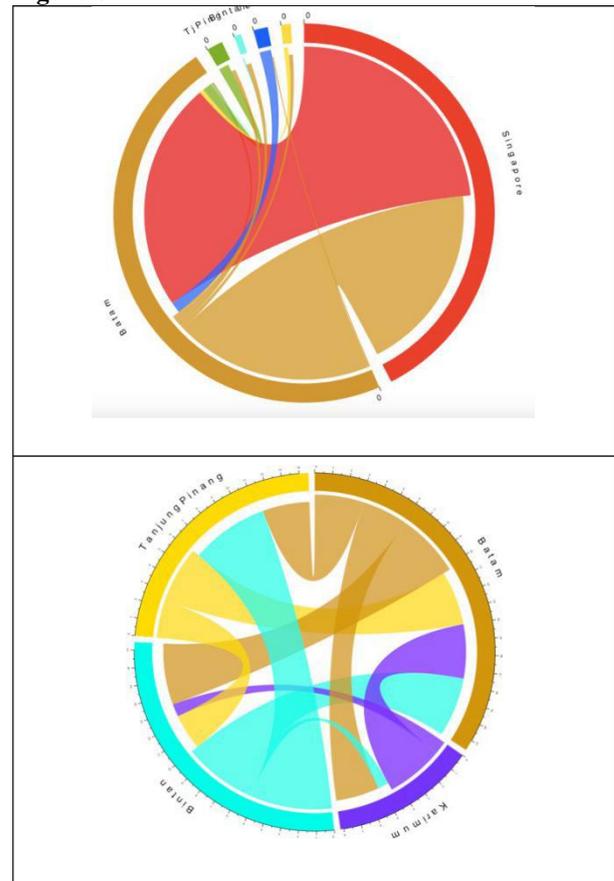
*BIFZA Head of Program Division*

Labor demonstration also plays important role; there are many companies that move to other countries with cheaper wages...The problem is that our minimum wages are high, around IDR 3.7 million (USD 255). So companies became anxious ...thus, there are industries that are closed due to high labor costs.

*Head of Industry Facilities Section Batam Agency for*

The graph below shows the goods flow between Riau Island regencies and Singapore dominated by the trade between Batam and Singapore (Fig. 6). Furthermore, the second graph shows the goods flow within Riau Island regencies. The graph shows that Karimun has a small flow volume to Batam compared with Bintan and Tanjung Pinang, and also has no flow with Tanjung Pinang. While Batam has large goods flow to all Karimun, Bintan and Tanjung Pinang suggesting the importance of Batam to the goods and people flow in the province in general and the BBK area in particular.

**Figure 6** The Goods Flow



The Presidential Regulation Number 87/2011 on Spatial Planning for Batam, Bintan and Karimun Regions is considered difficult to fulfill the promise to stabilize economic growth as the policy only concerns the spatial planning of Batam, Bintan and Karimun as a National Strategic Areas (KSN).

... the purpose of Presidential Regulation 87/2011 is only on spatial aspect, especially the provision of development space. Meanwhile viewed from fiscal aspect, there is a fiscal policy, monetary policy maybe, or political policy, which is beyond provision of development space... yes, actually

Batam’s location has the potential as a port, logistics hub ... there are other aspects that might be explored, for example licensing...the dualism of licensing is chaotic and hinder investors’ interest. But from this aspect of location theory, the city remains to be potential to be developed as an industry hub.

*Section Head  
Ministry of Agrarian Affairs and Spatial Plan*

Not only regulation issues but also the incomplete planning documents of Batam City contribute to problematic investment process and hinder economic growth of Batam City. According to the law, investment permits should be issued by referring to the Detail Spatial Plan (RDTR) [2], which the city has none presently. In fact, this lack of Detail Spatial Plan has been since the issuance of Presidential Regulation 87/2011. In this sense, throughout the implementation of the Presidential Regulation 87/2011, investment and development in the region has been somewhat suboptimal due to lack of appropriate regulations.

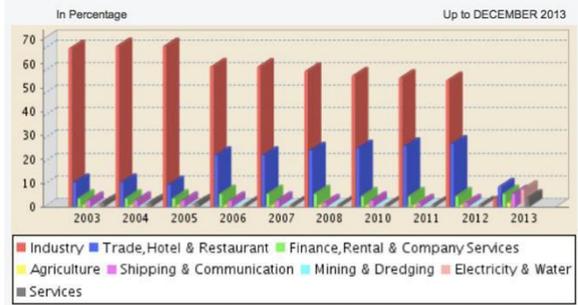
In addition, there are proposals to add a Special Economic Zone (KEK) in Batam City also has the potential to affect the economy of Batam City in the future.

As far as I know, (SEZ) Batam is still at the proposal phase presently. ...FTZ covers a number of districts; the Galang Rempang SEZ is indeed small and it is proposed to be excluded from Batam FTZ, as a SEZ...So the proposal of local government was submitted to the Coordinating Minister, where the SEZ Council, would decide whether or not SEZ will be implemented, following specific regulations and conditions.

*Section Head  
Ministry of Agraria and Spatial Plan*

Furthermore, we examine the economic dynamics in Batam. After decentralization, the share of GDP per sector has change significantly (Fig. 7). Between 2003 and 2013, while the share of industry has contracts from almost 70% to 55%, the share of Trade, Hotel and Restaurant sector has increased from 10% to almost 30%. In addition, the share of financial and service sector also has increased throughout the period. This suggests the slow shift from industrial to service-dominant sector in Batam, and confirms the shift of economic structure in Batam [1]. The paper explains that the politicization of Batam’s economic status after decentralization and Indonesia’s active initiative to join free trade agreements (FTAs) globally was the reason for the stagnation of the manufacturing industry in the city.

**Figure 7** Share of GDP per sector in Batam, 2003-2013



Source: [4]

To analyze the importance of Batam to its surrounding area, we conduct a shift-share analysis (Table 1). The result shows that Batam remains to be a growth engine for the Riau Island province as its GRDP of IDR 13 millions could be regarded as a significant contribution to the economic growth of the province. The multiplier of Batam economic growth shows positive effect on all sectors, with the biggest influence coming from the industrial sector about IDR 10.704 millions, followed by trade of IDR 703 millions and financial of IDR 608 million. To see the role of each sector, an analysis of industry mix and components competitive advantage components is needed.

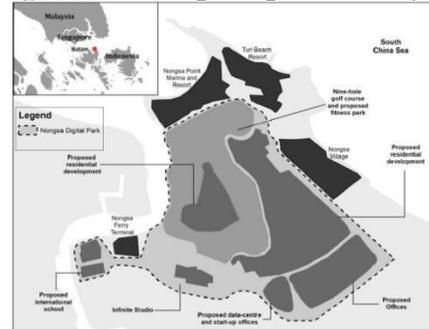
The influence of the industrial mix in Batam City has decreased by IDR 32 millions and this varies across sectors. For example, the effect of the industrial mix has a negative effect on manufacturing, mining and agriculture sectors. This illustrates that the performance in these sectors has decreased the same sector in Riau Islands Province. Meanwhile the trade, building and financial sectors experienced growth. Furthermore, the component of competitive advantage provides a growth effect of IDR 142 millions. There are three competitive sectors: trade, building and transportation. This illustrates that these sectors in Batam City are more competitive than those in Riau Islands Province.

In this sense, Batam is still considered a national industrial city, especially because there are several large-scale industrial estates such as Batamindo which are supported by foreign companies such as from Singapore, Japan and South Korea (Fig.8). Therefore, the analysis of investment growth in Batam needs to pay attention to two things: first, investment realization, that is, investment in industrial development or the construction and trade sector; and second, the industrial sub-sector which is the investment destination. Currently, there are several non-processing industrial activities such as shipyard industry in the Tanjung Uncang area and creative industries such as PT. Kinema which is engaged in animation supported by 300 animators located in the Nongsa Digital Park (Fig. 9). This shift was possible through the cooperation with BPPT that accelerate knowledge spillover and research network in the ICT sub- sector [1].

**Figure 8** Industry Zones Distribution Map in Batam



**Figure 9** The Nongsa Digital Park Map



**Table 1** Shift-share Analysis of Batam 2001-2011 (IDR Million)

	Komponen pertumbuhan	komponen bauran	komponen unggulan	PDKB
Pertanian	168.9	-37.1	-28.9	102.8
Bangunan	236.2	521.9	325.4	1083.6
Keuangan	608.2	276.9	-71.6	813.5
Industri	10704.0	-4701.8	-6512.9	-510.7
Pertambangan	38.4	-57.2	-49.9	-68.7
Jasa-jasa	154.6	94.9	7.1	256.7
Perdagangan	703.7	3398.9	6119.8	10222.5
Pengangkutan	302.2	357.5	222.7	882.5
Listrik	30.6	113.9	129.8	274.3
Total	12947.2	-32.0	141.5	13056.7

**5. CONCLUSION**

The issuance of the National Strategic Areas (KSN) of Batam, Bintan, and Karimun did not have a major influence on the economic growth of Batam City, even though the majority of economic support programs carried out were in accordance with the direction of the central government and the Batam City government. In particular, the firms’ decision to locate in Batam’s industrial zones could be seen as a direct result of national government policies emphasizing on the industrial clusters, through investment ease and government to government (G2G) cooperation. This shows how government policies can shape localization economies. [2]

Furthermore, the global economy is also related to economic globalization in the form of conditions in countries that are mutually open and become an integrated

market force. Batam City, directed to be the main gateway for international economic activity, is ultimately also affected by the economic globalization.

The main impact of global economy can be seen in the manufacturing industry and shipyards in Batam City. Economic globalization also affects the trade balance and the financial sector. This is proven in the analysis during the 2014 global economic crisis, and the economic growth of Batam City also declines, as indicated with the analysis of economic growth, labor, export-import activities, inflation, and investment in Batam City. However, the scale of digital and technology impact on economic growth should also be considered, as the technological advancement has become the new source of development in Batam [1]

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