

**RSIS Riau Roundtable 2010 on
“The Bridge between the Riau Archipelago and Singapore:
The Implementation of FTZs and Investment Opportunities”
Traders Hotel-Singapore, 16 March 2010**

Moderator:

Associate Professor Leonard C. Sebastian—Coordinator, Indonesia Programme

Speakers:

Dr. Harry Azhar Azis, Member of Parliament of the Republic of Indonesia and Vice-Chairman, Commission XI (House Budget Committee)

Mr. Asroni Harahap, Deputy for Promotion and Service of the Batam Industrial Free Zone Authority

Mrs. Indina Putri Fajar, Representative of the Riau Archipelago Office of the Indonesian Chamber of Commerce (KADIN)

and

Mr. Syarif Syahril, Researcher and Lecturer of the Institute for Economic and Social Research, Faculty of Economics, University of Indonesia

Date: 16 March 2010

**Venue: The Gallery, Second Floor,
Traders Hotel, Singapore**

Introduction

The implementation of the Free Trade Zone (FTZ) policy in the islands of Batam, Bintan and Karimun (BBK) in the Riau Archipelago Province was sanctioned on 1 April, 2009. FTZ policy was augmented by the adoption of three decrees from the Ministry of Finance (PMK N°45, 46 and 47) aimed at removing a variety of problematic regulations detrimental to the investment environment. The primary aim of FTZ implementation is to simplify trade procedures and to increase the number of foreign or local investors in BBK. However, since its implementation, the FTZ has been unable to boost levels of investment and export-import activities in BBK.

To explore some of the complex issues associated with FTZ implementation in BBK, a panel of experts were invited by the Indonesia Programme to discuss the critical issues related to the implementation of the FTZ and to analyse the overall investment climate in the Riau Archipelago.

Speech

Mr. Asroni Harahap replaced Mr. Mustafa Wijaya, the head of BIDA who was unable to attend due to an engagement in Jakarta. Mr. Asroni's presentation emphasized three key issues: the law and policy background of FTZ development, the implementation of the law and its progress, and implications of the FTZ on economic and investment progress in Batam.

The Riau Archipelago Council for the FTZ developed three regional operational authorities for Batam, Bintan, and Karimun (BBK) each respectively. It has been a learning process with the transition from the procedures of the bonded area, to those of the FTZ area. BBK's attractiveness for investment is based firstly on the suitability for operational facilities, technical support and logistics, followed by investments on headquarters, research and development activities and sales. Investors in BBK have expectations of access to better public services, on-going improvement in infrastructure, certainty of legal procedures to provide assurance in business process and planning, on-going improvements in government regulations, better provisions for investment business

permits, and continual up-grading of government procedures. Foreign investment applications showed a slight decrease after the signing of the MOU in 2006 up to 2008, though in 2009 the numbers of applications increased once again. Total investment in Batam now stands at about USD 13 billion, of which government investment is USD 2,77 billion, foreign investment USD 5.244 billion, and domestic investment USD 5.721 billion. The main sectors of economic activity are industry (58.50%), followed by trade and services (14.91%), tourism (15.03%), housing (7.38%), and agriculture (4.17%). As of December 2009, there were 26 industrial estates and 1,132 multinational companies present.

Mrs. Indina Putri Fajar presentation focused on an overview of the FTZ, problems which occurred over implementation of the FTZ, and solutions to overcome these hindrances.

After its inauguration in January 2009, the BBK FTZ brought advantages to the region and to investors providing the legal justification, acting as a one stop service, and providing an element of competitiveness. On the other hand, the implementation of FTZ has also come with several problems concerning the master list, goods inspection issues, and double added-value tax. To overcome these problems, the Indonesian Chamber of Commerce has offered a number of solutions, including a withdrawal of government regulation No.02/2009 which is inconsistent with Law No.44/2007, full authority for the FTZ Regional Council, optimising the role of the FTZ Authority, and a re-orientation of the role of customs institutions in the FTZ. In addition, BBK still needs to improve its infrastructure. In closing, Mrs. Indina pointed out that manufacturing, shipyards, tourism, and infrastructure are the main investment opportunities in BBK.

Mr. Syarif Syahrial shared his views as an economic analyst based in Jakarta. He began his presentation by explaining the background of FTZ design and regulations. He pointed out that there remained unclear overlapping functions between central and local governments which had a negative effect on competitiveness. The illustrations and tables in his presentation showed that household consumption remained the main source of consumption in the Riau Islands while construction is the leading economic activity. In banking, the bulk of credit went into consumption, and not to working capital or investment. A survey by the Bank of Indonesia confirmed that economic recovery in Batam is on track. The Riau Islands has had positive economic growth, but was still lower than the national average. Hotel occupancy has increased with 70% tourist arrivals coming from Singapore.

To conclude his presentation, he stressed four points for Indonesia and BBK to focus on:

- 1) There should be coordination between central and local government institutions, especially relating to assignments at the free port and free trade zone
- 2) There is too much pessimism directed towards BBK. Good communications are needed to create a strategic partnership between Indonesia and Singapore
- 3) The move from a rigid to a flexible master list is a good policy to ease the process of port handling in BBK. Many informal ports operate in BBK, however, so a decline in the use of official facilities will decrease the Government's potential revenues.
- 4) Government should anticipate significant population growth in Batam.

Dr. Harry Azhar Azis urged the audience to think about opportunities to enhance linkages between Singapore and the Riau Islands. Singapore-Indonesia bilateral trade is significant, due to traditional trade linkages over the centuries. Indonesian exports to Singapore ranked 3rd (US\$ 12.9M, 2008) after Japan and the USA, while Indonesian imports from Singapore amount to US\$ 21.8M (2008). Mr. Harry Azhar emphasised comparison between BBK and Singapore. Singapore (709.66 km²) has a smaller area compared to Batam (3949.75 km²), Bintan (5040.13 km²), or Karimun (3947.16 km²), but has a much higher per capita income. Batam has abundant land and labour, while most of

its capital (71%) is from Singapore-based foreign companies. This has benefited both sides, since foreign investment goes in tandem with domestic investment.

He also mentioned the idea of building a bridge between Batam and Singapore (15 km). This bridge would make Malaysia dependent on Singapore for trade with Indonesia. Indonesia would depend on Singapore for access to Malaysia, China, and Eastern Asia.

Q/A Session

1. Question: The master list has become an issue for several business people in Singapore and Batam. It creates difficulties for export and import to and from Batam. Is this still a problem nowadays?

Mr. Asroni: The master list is made to differentiate between products coming in for production/manufacturing and for consumption. Due to the issue of smuggling, every consumption good must be registered. Now there is a new flexible method of implementing the master list, especially for consumption goods. The theory is that companies need to make a list of all the items that go through customs. If they miss items on the list, customs will check and send it on to the BIDA office. We are the ones who will make recommendations on whether or not these goods can be passed through. Manufacturing companies are used to the procedure. The problem is usually for smaller businesses such as supermarkets that are unfamiliar with the procedure.

2. Comment: Business people in Batam have to negotiate with the labour unions every year. This has become a problem because you cannot predict by how many percent the wages are going to increase each year.

Mr. Asroni: Minimum wages are provided for in the national law. At the provincial level, it is the jurisdiction of the province, and not in the hands of the authorities implementing regional autonomy or BIDA. We help by bringing down the cost of living by providing low cost apartments subsidised by the government, and also low cost transportation.

Mr. Harry: The central government has signed several ministerial commitments regarding the minimum wages. But wages cannot be adjusted according to the law. Wages would be adjusted in line with rates of increment.

3. Comment: Law in writing is different from implementation. For example, we imported cars, but when the cars arrived we had problems. The law has to be made clear, or we cannot enjoy the privileges of the FTZ.

Mr. Asroni: In Batam there is demand to import cars, but there are some regulations still preventing this. There is a regulation permitting imports from the central government but the power has not yet been delegated to us. However, the regulation has been set for other capital items in Batam. Since these regulations are being socialised, overtime, there should not be an absence of clarity about the regulations.

Mr. Harry: Sometimes there are differences in the interpretation of the law. Our problem is that there are still a lot of government officers that are not doing their job well.

4. Comment: I attended this seminar and imagined a physical bridge. This is also a dream of mine. The connection between Batam and Singapore will benefit both countries.

Mr. Asroni: In past years the public works department came to us with this idea of building a Pan-Asia highway. They were asking the commitment of the Government of Indonesia to support this project. A highway through Singapore then to Batam will be more beneficial than a highway through Malacca. But it will cost more because it is further and we will need to build smaller bridges.

Mr. Harry: The estimated cost for building the bridge is around 5 billion rupiah between Batam and Bintan. A highway from Batam to Singapore would cost double this. But the problem is that we would have to figure out how the construction work can be done and by whom? Should it be the Indonesian government, Singapore government, local government, or maybe the private sector.

5. Question: Is the Special Trade Zone (STZ) a larger context and FTZ the substance? Is there a time frame or road map to move beyond FTZ to a STZ?

Mr. Asroni: The STZ is part of a bigger scheme of FTZ. FTZ is passed by law, by the parliament and government. FTZ applies to three regions, especially Batam, and is government-driven. It is not to be replicated in anywhere else, because the FTZ has to have land and infrastructure, and this initiative cannot be purely driven by the private sector. FTZ laws are also evolving out of the BBK experience, so at the moment we do not see, and it is not the intention of BIDA, to move from FTZ to STZ.

Mrs. Indina: The FTZ is part of STZ. FTZ is more economically specialised, with its green tax and customs. Regarding time frames, this is not within our authority, as we need to pass it through the government.

6. Comments: Looking at the bilateral relations between Singapore and Indonesia and especially Singapore and the Riau Islands. Despite the problems that we identify, there are a lot of developments. If we look at tables provided by the speaker, the credit is bigger in the consumption sector; maybe consumption has been substituting for exports in the last few years. Statistics depend on how you see them, in optimistic or pessimistic perspective.

Mr. Asroni: I agree, maybe the statistics given by Mr. Syarif are in relation to local consumption. But in fact, most funding is from Singapore. Big companies in BBK are always coming to Singapore for funding.

Mr. Syarif: Credit on consumption is local. But it is the private sector that plays a big role in the BBK FTZ. Batam imports more from Singapore than it exports. The total imports of Batam are greater than total exports.

Mr. Harry: The problem is that budget revenues are too low. 15% of local taxes contribute to local development and 85% goes to central government. I agree that we have to put in some engine of growth. There are a lot of products that will flood the Indonesian market. Our industries have to be able to compete.

7. Question: What is the position of BIDA on the new regional autonomy?

Mr. Asroni: BIDA free trade zone authority is the transformation from Batam Industrial Authority. It is again, government driven. In the national structure, the entire infrastructure in Batam are government assets. Autonomy gives more independence in setting up budgets but most finance comes from the central government.

Recorded by : Verra, Research Analyst
Vetted by : Assoc Prof Leonard Sebastian

About the Speakers

Dr. Harry Azhar Azis is Vice Chairman of the Indonesia's National Parliament Budget Commission. He serves on Commission XI focusing on finance, national development planning, banking, and non-bank financial institutions. Dr. Azis, born in the Riau Islands, is also an active member of the Golkar Party's Central Leadership Board. Besides his involvement in politics, Dr. Azis also lectures at various universities in Indonesia on economic issues. He has published his writings in various media and academic journals. In 2000, he obtained his PhD in Political Science from Oklahoma State University.

Mr. Asroni Harahap is the Deputy for Promotion and Services of the Batam Industrial Free Trade Zone Authority. He obtained his Master of Science in Civil Engineering from State University of New York Buffalo, USA. He gained his bachelor's degree in the same major, from ITB, West Java. Mr. Asroni worked with Batam Industrial Development Authority (BIDA) from 1982 - 2008.

Mrs. Indina Putri Fajar is Vice Chairman of the Small and Medium Enterprises of the Riau Islands Office of the Indonesian Chamber of Commerce (Kadin). Over and above her involvement in Kadin, she is also Director of Inggita Aryanta Inastu. The company offers consultancy and is involved in a variety of interior design projects in the Riau Islands. She is currently the General Secretary of the Riau Islands HIPMI and is Deputy Chairman of the Batam Tourism Promotion Board.

Mr. Syarif Syahrrial is a researcher at the Institute for Economic and Social Research (LPEM), Faculty of Economics, University of Indonesia, and also lectures at the Department of Economics. At present, he is conducting research on the implementation of Free Trade Zones in Batam, Bintan and Karimun. Mr. Syahrrial has produced research reports that are focused on regional autonomy and decentralization policy implementation in Indonesia. His op-ed articles have also been published in the Jakarta media. Mr. Syahrrial obtained a Masters degree from the Department of Economics, University of Indonesia.