Batam Bintan Karimun Free Trade Zone for Singapore’s Sake

In a state speech on 15 August 2008, President SBY said that one of the governmental priorities in Customs Tariff sector in 2009 is to enforce completely trade cooperation applied between Indonesia-Japan by the scheme of import duty tariff reduction, and the FTZ enforcement in Batam, Bintan dan Karimun Islands area (BBK). The abovementioned SBY’s policy will certainly expand Japan and Singapore business in Indonesia economy. The two country business expansion becomes one of the crisis root sources on Indonesia.

Singapore Business Relocation

BBK FTZ to be in effect soon is only the plan advantageous for Singapore economy. It is undeniably understood from tracing back the history of the area development. By the New Order sacrificing tens of trillion rupiah out of the people budget, the project relocated lowly value-added factories from Singapore.

Since the beginning of 1980s decade when Singapore industries grew speedily, Singapore needed relocation sites for lowly value-added product assembly. In 1988, Singapore launched its economic restructurization program, with the concept to shift from labor-intensive industry to highly value-added industry that put it as the main player in the global investment. Singapore total foreign direct investment jumped from S$1.5 juta in 1976 to S$16.9 billion in 1990 and to S$28.2 billion in 1993.

Batam and other islands in Riau Islands (Kepri) was selected as the most logic alternatives for relocation. The Study done by MAS ((Monetary Authority of Singapore) dan EDB (Economic Development Board) concluded that industry site on Batam island will support Singapore as the FDI milestone here.

To follow up the program realization, the then prime minister, Lee Kuan Yew suggested to President Soeharto about the importance of Singaporean companies getting investment facilities on Batam Island. Jakarta welcomed the suggestion warmly because the initiatives was in accordance with the deregulation spirit and open door policy to draw foreign investment. Indonesian government, then, published the policy change in October 1989. To note is the permission for foreign ownership on Batam island up to 100%.

In BJ Habibie leadership as the Batam Industrial Development Authority Agency chairman (Batam Authority-red), industrial development plan got more depending on Singapore. Then, Habibie proposed a theory known as “Balloon Theory”. In BJ Habibie view, if the balloon is continuously blown, its pressure gets bigger and in some extent the balloon will blow up because the room capacity is limited. So as with Singapore with area shortage, some time in the future it will the same experience as the balloon’s .so it needs other smaller ballons to the capacity excess. This is somehow the departure point to move the Batam growth acceleration during the last three decades. If Singapore wis baloon I, then baloon II is Batam, while Baloon III is Galang dan Rempang Islands, while Baloon IV is Bintan. Baloon I is expected to positively synergize with baloons II-IV, without the need to reduce Baloon I quality.

Two years later, in 1990 to be exact, Singapore repositioned its industrial restructurization program realized in R 2000 (regionalization 2000) program aiming at developing urban industrial area in another country as a new production activity site with facilities similar as the one in Singapore. The moved companies will only establish their factories in the purpose country while their headquarters
will be still in Singapore. That way, Singapore will role as their business operational base.

In its way, Singaporean government smoothly negotiates investment facilities and conditions needed for its developing industrial site. Asian (Indonesian) political management style which is not transparent, legalistic and decision making more based on relationships involving personnel, network and sub rosa(behind the scenes) conventions, facilitated Singapore in proposing privileges and protection for its industrial site. The negotiation to be awarded special treatments went smoother by briberies and kickbacks.

To smoothen the step to get investment facilities, Singaporean government usually sent its senior officials to find institutional frameworks for the projects (for example, Indonesia-Singapore Joint Working Group and Joint Steering Committee Meeting Framework Agreement in Economic Cooperation in the Island of Batam, Bintan and Karimun). The institution then set the investment conditions to negotiate with the country where the industrial site will be relocated.

**To Strengthen Singapore Domination**

We do not know how much fund Singapore used for industrial regionalization plan. But in 1994, the government announced about 2-3 percent of the central bank fund was in the initial stage directed for the infrastructural project development in Asia. The very ambitious project fund was estimated to grow to 20-30 percent within 10-15 years ahead.

Batamindo Industrial Park (BIP) and Bintan Industrial Estate (BIE) are the first industrial areas Singapore developed successfully in other country. BIP and BIE are also developed by direct business connection and telecommunication to Singapore from Indonesia. The business connection is controlled by Singapore Economic Development Board (SEDB). Each Foreign Direct Investment (FDI) entering BIP and BIE areas have to pass SEDB, even in its way all FDI entering Batam and Bintan must also pass SEDB. With a networks widespread to many MNCs throughout the world, in fact Batam and Bintan are controlled by Singapore to draw investment.

More than 50% foreign companies operating in Batam and Bintan are Singaporeans, or other countries’ companies whose operational bases are in Singapore. Out of the total foreign investment entering Batam, there are 186 Singapore investors with total value of US$ 10.307 million. Batam dependency on Singapore can be seen from the following facts: 65% of imported goods entering Batam are from Singapore. 69% of exports from Batam are for the neighbour country that is only about 45 minutes away by ferry. 70% of Batam tourists are from Singapore.

Factually since the beginning Batam development is aimed at meeting Singapore interest, not to build the national economic sufficiency nor to make Batam as national economic locomotive.

This condition is exacerbated by MoU being signed in common between President SBY and Prime Minister Lee Hsien Loong on 25 June 2006 about the establishment of Special Economic Zone—SEZ. To follow up the MoU, Indonesia government subsequently issued the governmental regulation in lieu of the law No.1 in 2007 that was next changed once more into the Law no. 44 /2007 about the free trade zone. In the next development, the government issue three governmental regulations, each of them arePP No. 46, 47 and 48 in 2007 about Batam, Bintan and Karimun Free Port and Trade Zone.

Batam, Bintan and Karimun Free Port and Trade Zone practically strengthens Singapore domination here, making BBK subordinate to Singapore and exploits Indonesia potentials to complement the country needs, not as a competitor such as aspirated highly by Ibnu Sutowo (Pertamina ex-head director) when opened the island for the first time.

On the other side, FTZ setting does not guarantee that the zone performance will be better than
beforehand. Statistically, Batam performance in drawing the foreign investment does not shown good achievement. In 2006, local and foreign private investment is comparable as 57% to 43%. In other parts, although the (domestic and foreign) private investment shows increase, but it is low in men power absorption. In 1998, total private investment reached US$ 5,166 Million, rose to US$ 5,351 million in 1999, and in 2002 it increased to US$ 6,113 million, the increasing trend is not followed by the capacity to absorb menpower. In 1998 productive age absorption reached 53.02 percent, declining to 41.76 percent in 1999, and then decreased to 34.01 percent in 2000.

Learning to Develop FTZ from China

Taking BBK FTZ into effect is far from what prevails in China, such as China-Singapore Suzhou Industrial Park (CS-SIP) or Suzhou industrial area in China, and Wuxi-Singapore Industrial Park (WSIP) or Wuxi industrial area. Although in the beginning both areas were developed in cooperation with Singapore, in the way they could not grow fast. Until then Singapore give up its ownership to the local government. After being managed by the local government, their development just grew very fast.

Suzhou industrial area is formally operated on 12 Mei 1994, the most controversial urban industrial area. It is the biggest joint venture project in China both in cost calculation (US$ 20billion) and space size (70 km2). It is projected to be occupied by 600,000 population.

Joint Venture involved investor consortium of Singapore and China Industrial Park Development Company (CSSD). China consortium consists of 12 organizations generally owned by China government holding 35 percent shares in CSSD. Singapore consortium consisting of 24 organizations generally of the companies having linkages with governments, SEDB and JTC International, and two organizations involved with other industrial area, SembCorp Industries. CSSD itself was controlled by an agency formed by local government, that is Suzhou Industrial Park Administrative Committee (SIPAC).

Direct competition tightly happens against Sunzhou New District, an affiliation project with Suzhou municipality with the same purpose, to develop industrial, trade and modern urban housing areas. The district development will be started some time after CS-SIP development and the area is more interesting for trade center, and housing, also by the foreign investors. The advantage is low paid workers, closeness with airport and one stop service systems adopted from the model made by CS-SIP.

Suzhou New District development also costs high with the facility at the same rate as CS-SIP. Nearing the middle of 1998, the area developed with US$ 3.4 billion has drawn 88 manufacturers with project values US$ 30 million on average. While Suzhou New District project achieves close to the target, CS-SIP is otherwise especially for trade and housing areas. Singapore disappointment is shown by an open statement by then Senior Minister Lee Kuan Yew on the commitment of China as the partner on that project.

In June 1999, Singapore disappointment to Suzhou municipality climaxed by the announcement that Singapore has reduced its involvement. Singapore consortium transferred 35 percent of the share majority ownership in the project at CS-SIP to China consortium in 2001. Before a number of shares were transferred, CS-SIP had drawn 113 projects. More than 91 foreign companies operated with workers absorbed as 14,000 persons.

But the investment started to come in much afterwards so that the area got profits for the first time since it was established. 2001 profit is US$ 7.5 million. Nearing June 2001, the industrial area had 193 investment projects of more than US$ 5.1 billion. CS-SIP growth continued in 2002, with new investment coming about US$ 15.4billion. The incoming tenants are mostly from America and Europe.
and 73% of the investment is electronic, information technology and other high technology segments. The industrial area becomes the investment center for 500 companies and 40 of them have investment above US$100 million.

Wuxi-Singapore Industrial Park (WSIP) development started in 1994 and opened formally in 1996. The industrial area located in Jiangsu province, 130 km away from Shanghai and 80 km from Suzhou. Wuxi population was 4.3 million people with per capita income about US$2,000, one of the highest in China cities. Therefore Wuxi entered high-technology development zone so that way electronic and electricity, computer and computer peripherals, system control and instrumentations, precision engineering, telecommunication components, medical products and medical treatment, automotive and airline components, and supporting industries.

In the beginning, 70 percent shares of the industrial area were owned by joint venture of Singapore 30 percent, the rest owned by Wuxi municipality. Singapore consortium was led by SembCorp Industries (SCI), with other main investors was Temasek Holding (Singaporean government main holding company), and Salim/KMP Group.

WSIP key investor is the multinational companies operated in Singapore such as Siemens, Seagate Technology, Sumitomo, and Matsushita, SEDB assistance in taking the first tenant there has felt so beneficial. However, the total investment to draw was still under CS-SIP. Also the target to invite high technology industry did not work because the incoming industry was relatively low valued, mostly from Asian countries. From the total US$450 million investment coming in 1996 with 6,000 workers absorbed at the end of that year, investor interests were declining. It resulted in the investment growth more in the form of expansion of the existing investors. The higher tax and capital customs levies in 1996 reduced more investors in high-tech.

WSIP export value in 2001 was US$1 billion with 16,000 workers. That year WSIP developed the second phase, covering 235 hectare area. However the long-term prospects are unclear. Since the first time operation, WSIP suffered loss. In the first year, the loss was Sin$3.8 million and Sin$4.3 million each for 1998 and 1999. In 2000, the area could only cut its loss to Sin$2.8 million. In the middle of 2002, a consortium led by SCI signed an agreement to reduce its shares to 49 percent in WSIP that was effective in 2003. The management control and share transfer, according to SCI will increase investor interest and the operational efficiency. SCI bore the loss of Sin$48.3 million for the action.

Partner China taking parts of SCI shares then built the third phase of WSIP doubling the area size. So as with CS-SIP, soonafter China signed, WSIP showed the result as CS-SIP.

Seeing the most current development of BBK FTZ application plan, we claim the government to review the special port and trade area of BBK with Singapore. BBK FTZ of Singaporean version does nothing beneficial for Indonesia. Singapore is not a security for FTZ to meet Indonesian expectation. The failure of Singapore in China is a reference for Indonesian government to review its cooperation policy with Singapore.

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