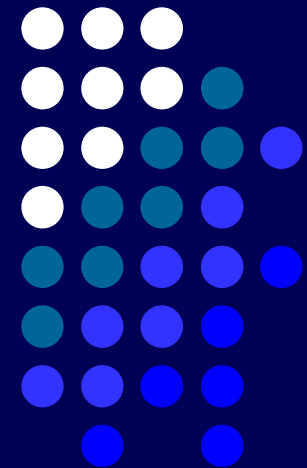


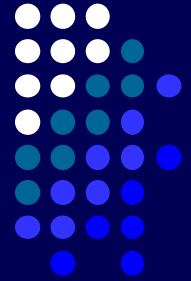
# Batam's Digital Economy: Prospects and Challenges

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Francis E. Hutchinson &  
Siwage Dharma Negara



# Structure



- The SIJORI Growth Triangle
- Recent Economic Trends in Batam
- A Green Shoot – The Digital Economy
- Immediate Challenges
- Policy Issues

# The SIJORI Growth Triangle

Launched 1990 – Singapore, Johor (Malaysia), Riau (Indonesia)

Different factor endowments, single destination

- Singapore – capital- and skill-intensive
- Johor – labour- and land-intensive
- Riau Is – labour- and land-intensive

## Government-led

- Low-cost
- Quicker than FTAs
- Export-oriented – escape small domestic markets
- By-pass constraints –
  - land, labour for Singapore
  - capital and technology for non-core locations
- Enable all locations to climb the value chain







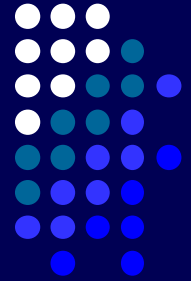
# SIJORI – Population and Income



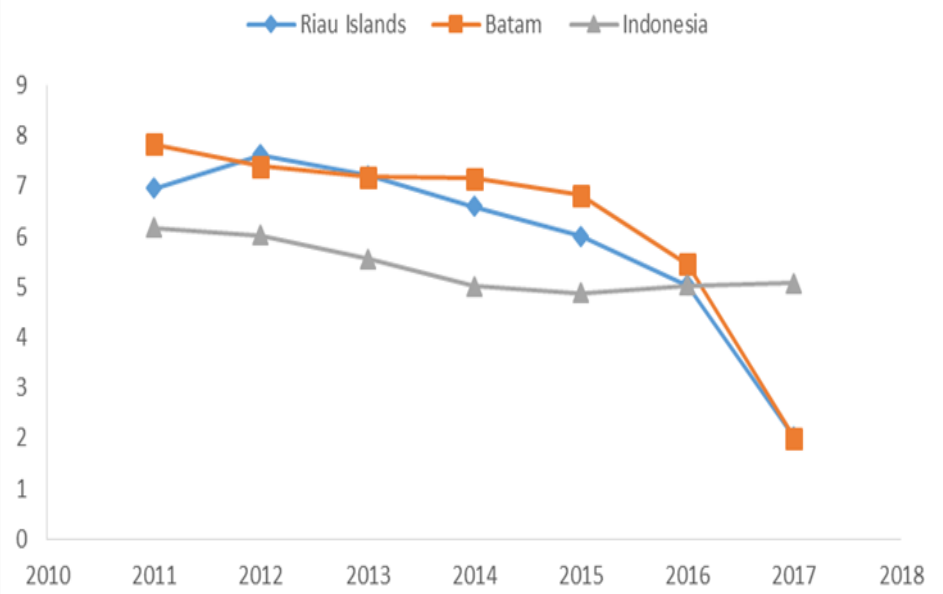
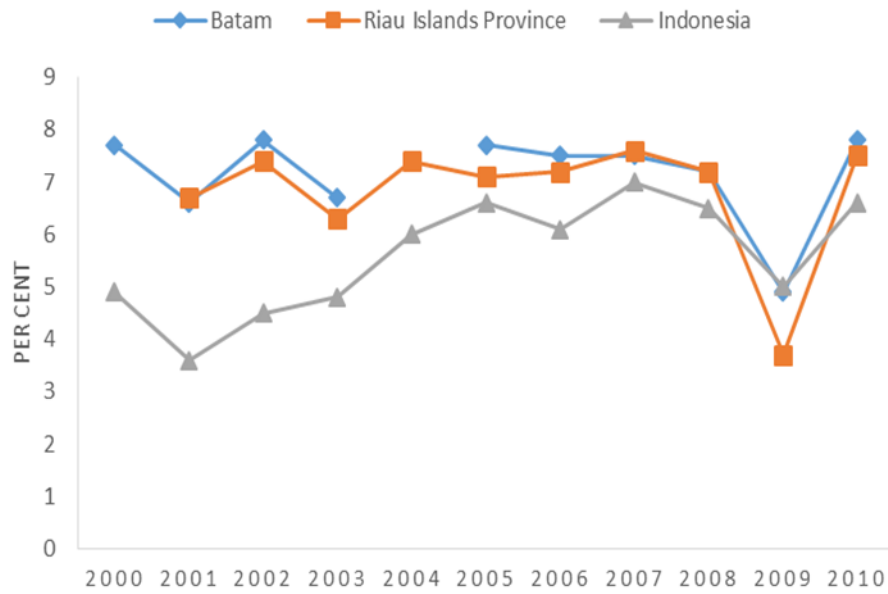
Population (millions)				
	Singapore	Johor	Riau Islands	SIJORI
1990	3.04	2.14	0.56	5.75
2010	4.03	3.36	1.69	10.1
2030	6.06-6.26	4.02 (5.6)	2.77 (5.1)	12.85-13.05 (16.8)

GDP Per Capita (2005 dollars)				
	Singapore	Johor	Riau Islands	SIJORI
1990	16,049	3,738	2,537	10,304
2012	33,989	5,081	3,650	19,202
2030	56,998	9,997	6,557	30,821

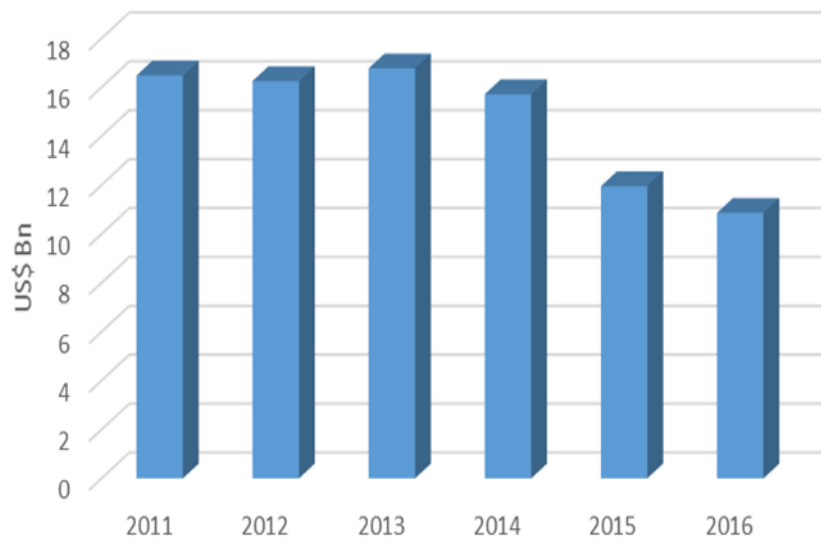
# Structure



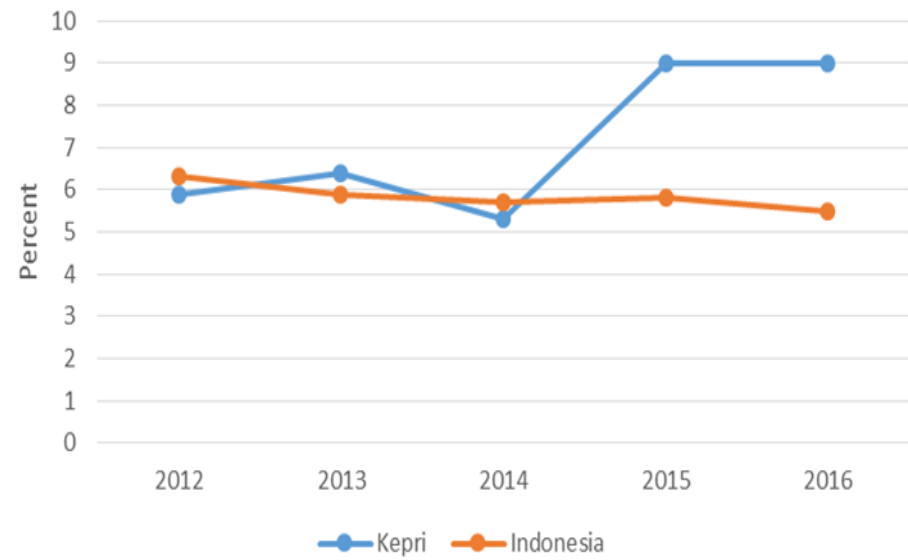
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Exports from Kepri

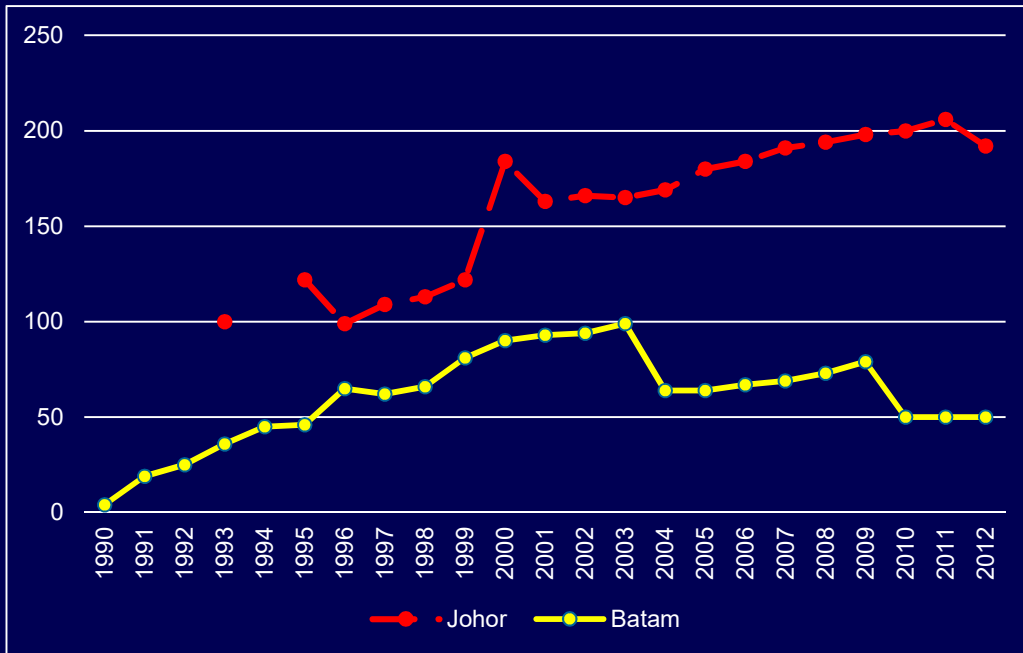
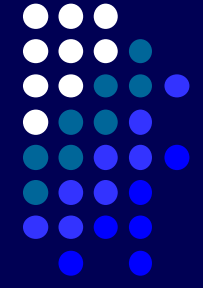


Unemployment

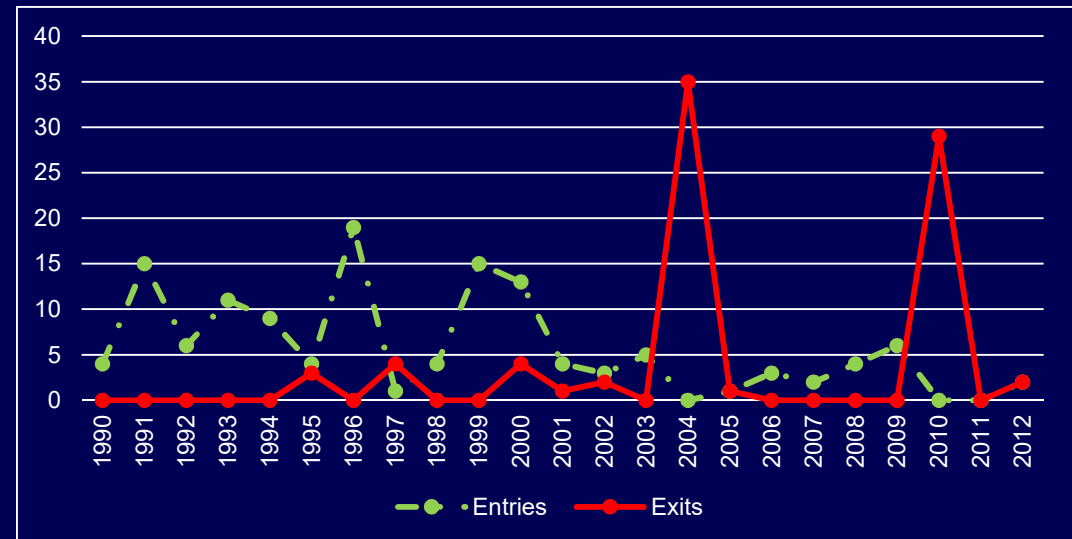


Source: BPS

# Electronics firms in Batam and Johor



## Batam - Firm Entries and Exits



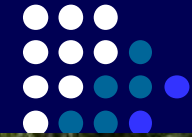
Source: van Grunsven & Hutchinson 2016

# Entries



2016 (+150)

# Exits



1993 (-500)



1990 (-600)



1992 (-680)

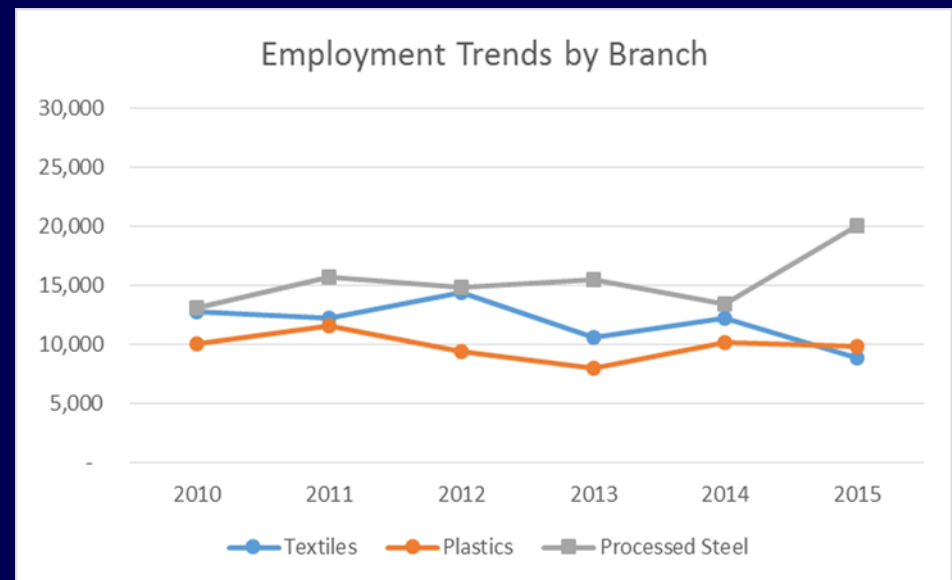
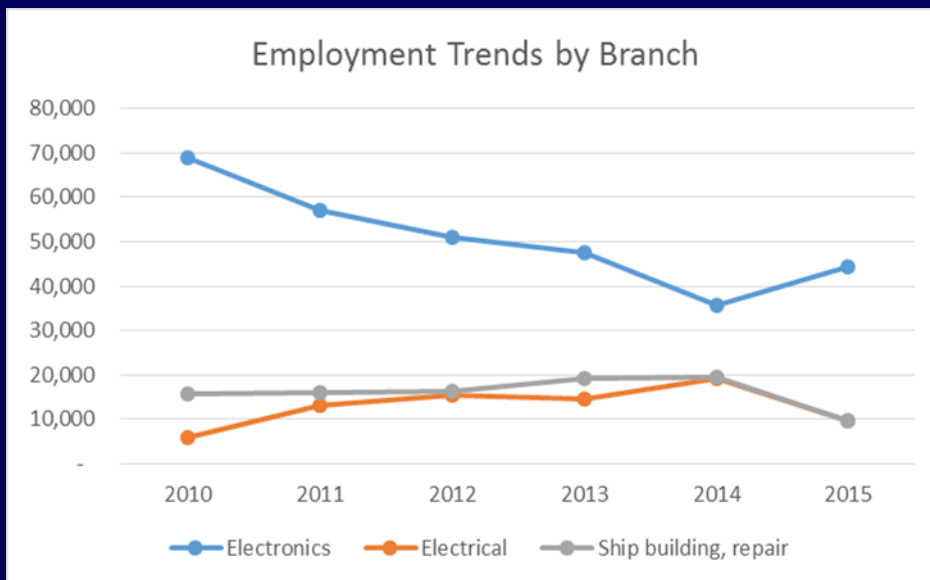
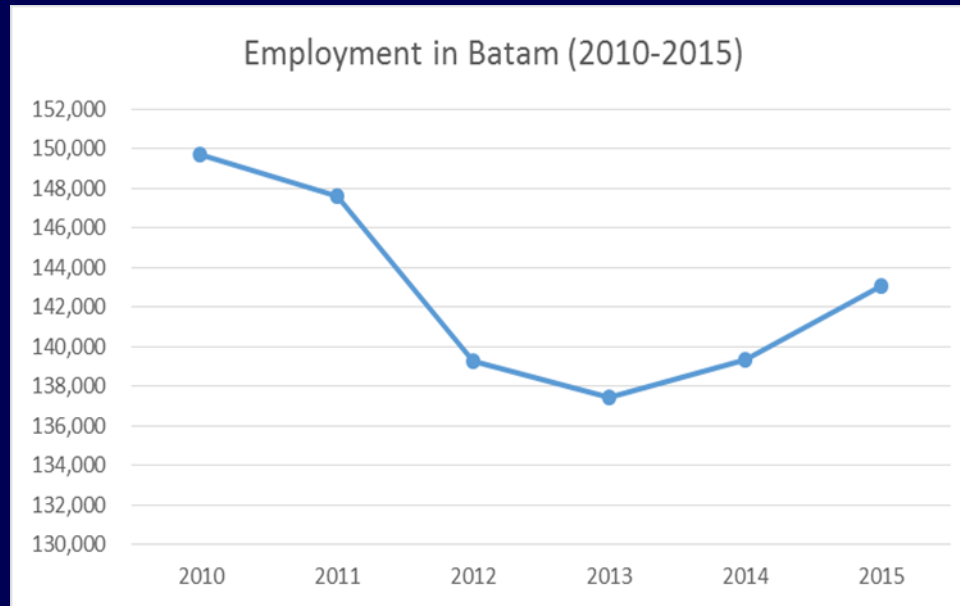
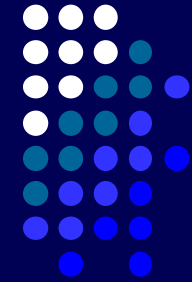


1990 (-1,200)

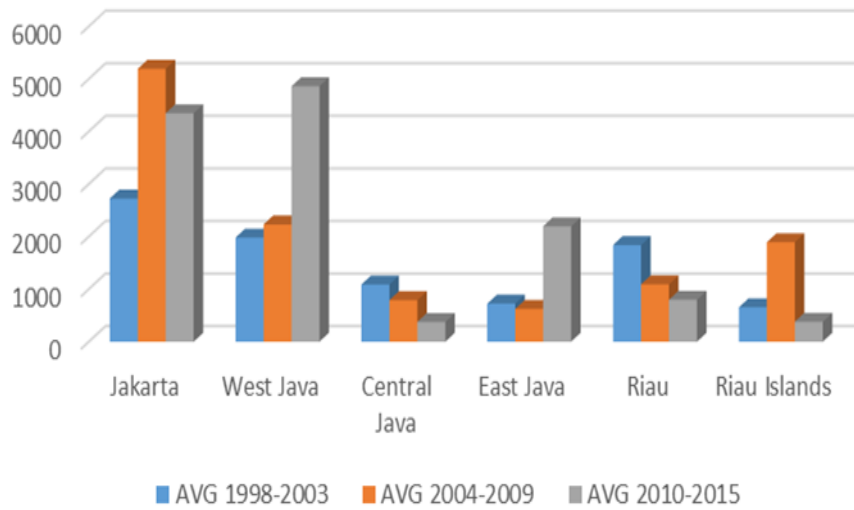


2000 (-1000)

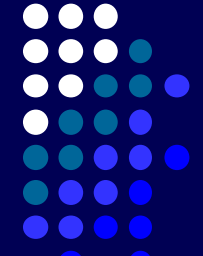
# Employment Trends



### FDI by Province



Source: BKPM



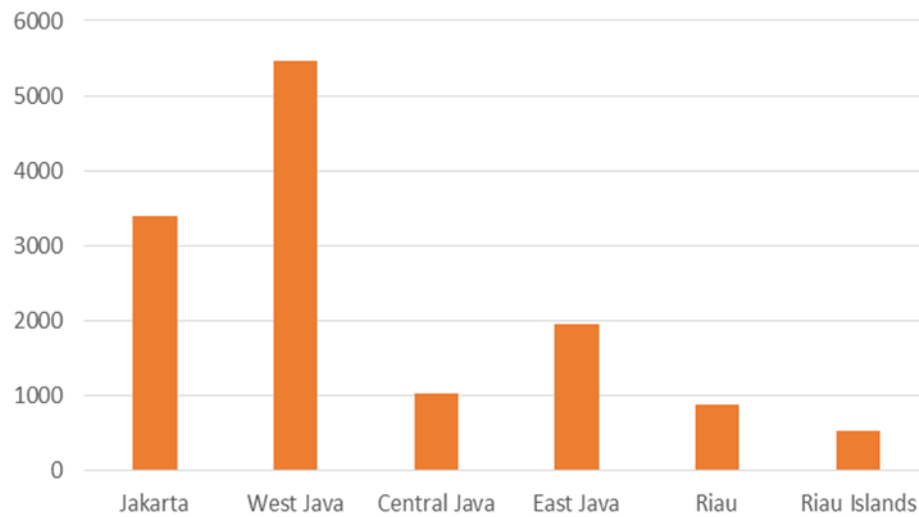
### Kendal Industrial Park

A Cost-Competitive Location for Global Market

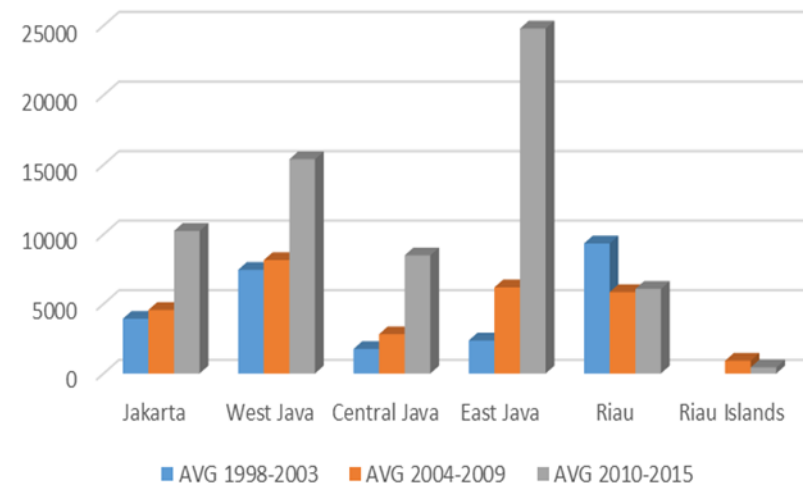


INDONESIA, SINGAPORE LAUNCH KENDAL INDUSTRIAL PARK

### FDI by Province (2016)



### DDI by Province



# Why?

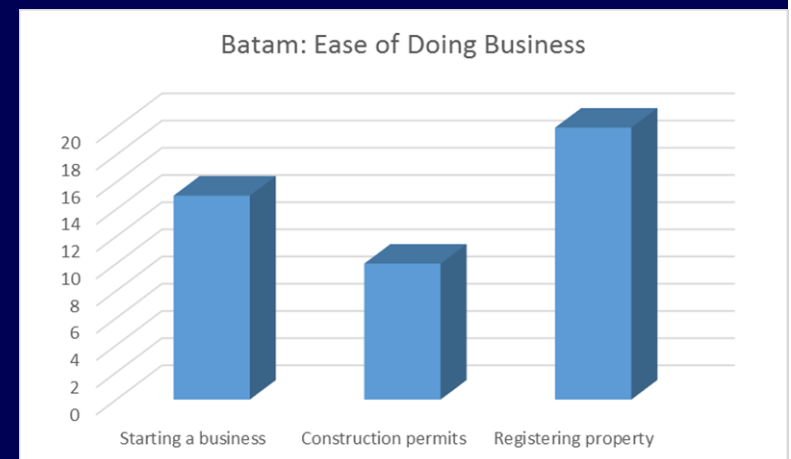
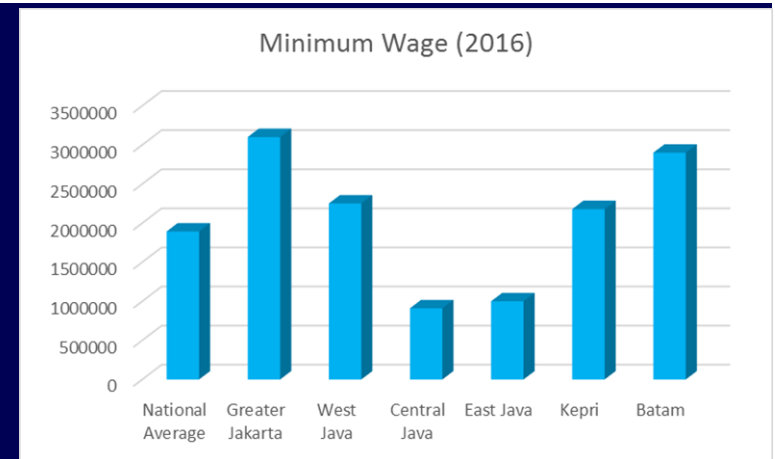
## 1) Declining Attractiveness

- wages, ease of doing business

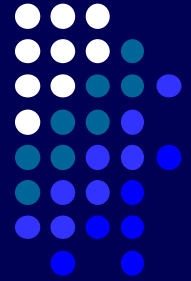
## 2) Domestic Market vs Production for Exports

## 3) Profusion of veto-makers

*“Investors don’t want Batam, they now want the domestic market”,*  
industry observer, Singapore, Nov  
2016

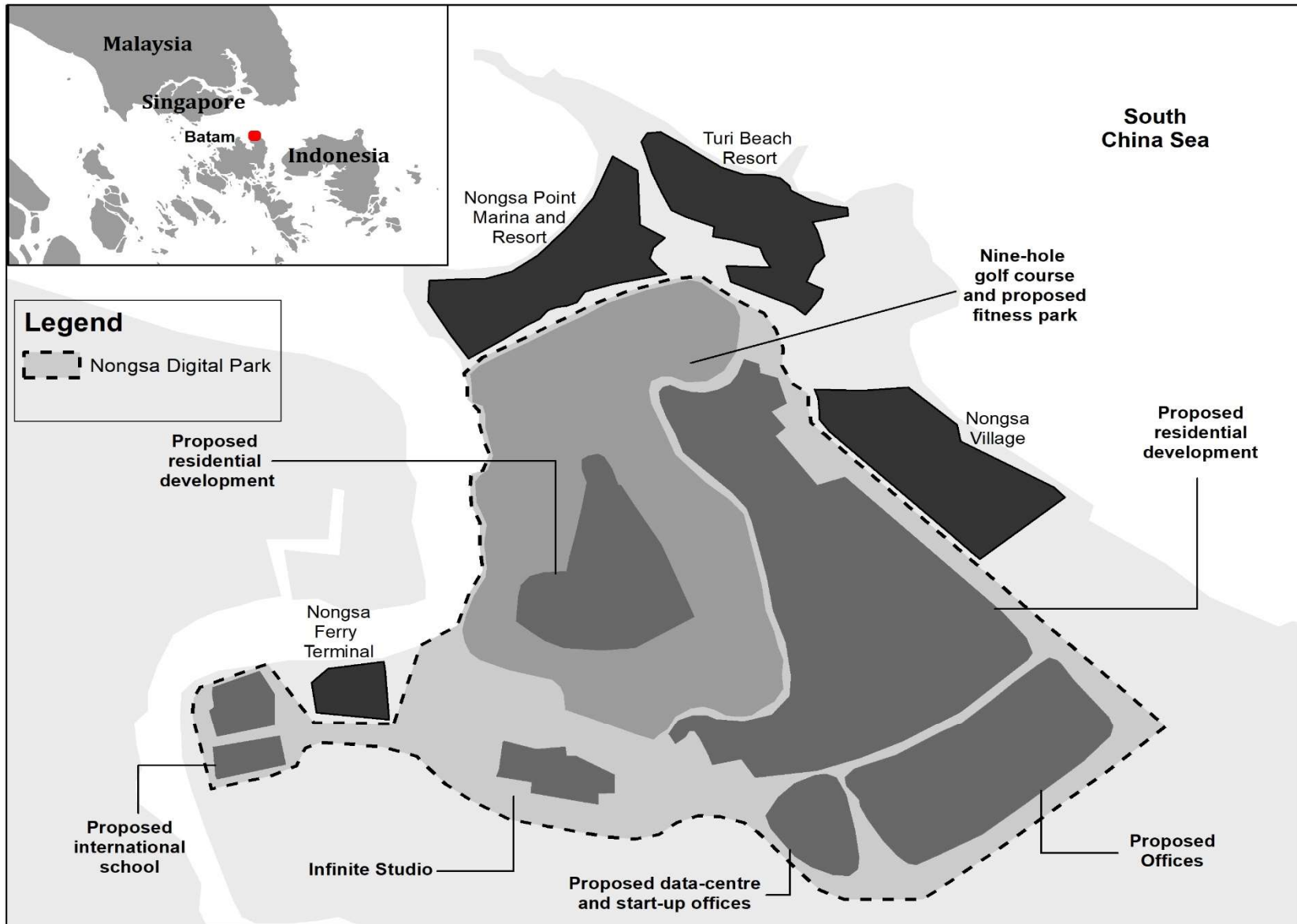


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Firm	Sector(s)
<u>Haulio</u>	Logistics
FWD Insurance	Employee benefits insurance
NEUENTITY	Web development, branding and design
<u>Jublia</u>	Business matching technology
AIA	Insurance
<u>Liquidpay</u>	Cashless payment solutions
<u>anywhr</u>	Tour and travel firm
Infinite Studios	Media and creative services
<u>nexG</u>	Enterprise, cloud, mobile, and IoT Service
Energy Eco Chain	Payment solutions for the energy sector
<u>Stendard</u>	Workflow process management
Web Imp	Web design and development
Haste	Retail analytics
<u>HRnetGroup</u>	Professional recruitment and staffing
LDR technology	Mobile technology and E-learning solutions
bridge5asia	Integrated asset management for real estate
<u>gleematic</u>	AI with robotics process automation
Data strategy	Marketing and analytics
<u>Versafleet</u>	Transport management software
<u>Nanyang Inc</u>	Logistics rental for outdoor events
<u>Prospace</u>	B2B technology company
<u>Suzerin</u>	Software development
Vouch	Customer service interface
<u>xfers</u>	E-payment solutions
<u>Futureflow</u>	Financial management for entrepreneurs
Quark Spark	Web design and development
LDR Technology	Mobile technology and E-learning
Trusted Source	IT services and solutions
Smarter Me	Online education for children
<u>Xexcide</u>	Business consulting for SMEs



**ITEBA**  
Institut Teknologi Batam

In November 2016, Jokowi presented a four-year economic plan to transform Indonesia into the largest Southeast Asian digital economy. Indonesia aims to create 1,000 high-tech startups by 2020, with a combined value of US\$10 billion.



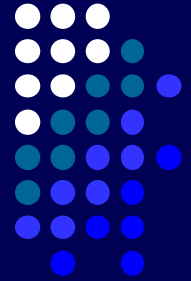
## THE CONVERSATION

Academic rigour, journalistic flair

	Singapore	Batam
Labour	SGD 3-5,000	SGD 400-1,500

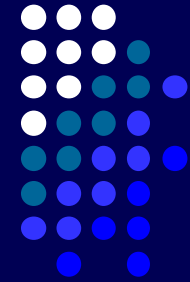


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# Immediate Challenges



Limited number of jobs to date

Limited number of players – no investment from Jakarta-based majors

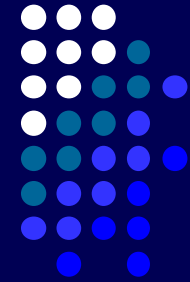
Challenging regulatory environment

Few immediate benefits for local residents

Limited local resource base

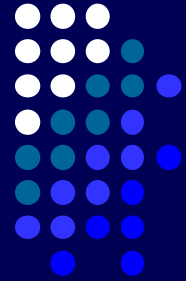


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# Life as an FTZ?



## Benefits:

- Easier access to land
- Expedited processing
- Suspension of import and export duties
- Exmptn on excise tax for imported raw materials
- Exmptn from VAT and luxury excise tax
- Exmptn on income tax on imported goods
- Exmptn/relief from local taxes
- Rdtm in land & building taxes
- Rdtm in income tax (20-100%) for 25 yrs >US 73mn
- 70 years

# Moving to an SEZ?



PRESIDEN  
REPUBLIK INDONESIA

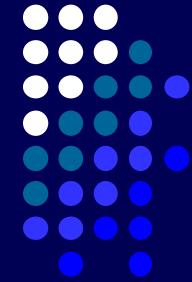
UNDANG-UNDANG REPUBLIK INDONESIA  
NOMOR 39 TAHUN 2009  
TENTANG  
KAWASAN EKONOMI KHUSUS

## Law 39/2009:

- **Target sectors:** export processing, technology, tourism
- **Requirements:** boundaries; close to shipping routes or natural resources; have support from local gov't; fit planning
- **Incentives:** as with FTZ, plus – investment allowance, accelerated amortization, waiver of tax on dividends, longer leases on land
- **Governance:** Zone Council, Administrator
- 8 SEZs in Indonesia – 6 industrial and 2 tourist (3 operational)
- **FTZs:** (BBK) are eligible to be converted into SEZs, if not their status will lapse after the pre-determined period.

Source: Damuri,  
Christian, Atje 2015

# Moving to an SEZ?



## Issues:

Co-existing regimes (FTZ and SEZ), 70 year validity

Enclave issues:

- Cost
- Access to ports and between zones

Access to domestic market? Legally and logistically

Skills base?

Applicability to services? Capital requirements

Custodianship – who will be the Administrator?

- BP Batam
- Batam Municipality
- BP Batam (Batam); B Muni (Re-lang)

