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**DEVELOPING BATAM**  
**INDONESIAN POLITICAL ECONOMY UNDER**  
**THE NEW ORDER**

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September 1996

A thesis submitted for the degree of Doctor of Philosophy at the Australian National  
University

Except where otherwise indicated this thesis is my own work.

*James Gil*  
.....

24 September 1996  
.....



**To the memory of**

**Jus. M. Osak**

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## Abstract

Since Batam Island was targeted for development by Soeharto's New Order government in the late-1960s, it has undergone a significant transformation, physically, economically and politically.

This study describes and analyses that transformation. Whilst the results of development on Batam Island before 1988 were quite limited, and highly reliant on the oil industry, changes to the investment regime in 1989, as well as other reforms, has brought far-reaching changes - a massive influx of investment and the growth of an export-oriented manufacturing sector. What was once a sparsely populated island of subsistence farmers and fishermen is today a seemingly thriving manufacturing, industrial and tourism area.

Through an examination of domestic factors, such as state and non-state institutions, individuals and business, as well as external factors such as international economic conditions and foreign capital, the study also considers what the experiences of developing Batam Island tell us about the policy-making processes in Indonesia, and about Indonesian political economy under the New Order in general.

It is argued that Indonesian political economy is characterised by what might best be described as elite politics. Patrimonialism and the closely-connected features of patron-client relationships and intra-elite politicking have consistently dominated the policy-making processes under the New Order government presided over by President Soeharto.

This is not to deny the existence of other influences. Indonesian societal groups have demonstrated that they can have policy input. Likewise, external variables have affected the policy environment. However, whilst societal influences are not a major constraint on the Indonesian state's policy-makers, it is recognised that policy-making is not confined simply to actors within the state apparatus.

In tracing Batam's development, various political and economic interactions become apparent - between domestic and international variables, between public and private interests, between state and civil society, and within the state itself - illustrating that while the main focus of studies of Indonesian political economy should be on the state, non-state influences must also be analysed in order to explain how political and economic actions in Indonesia are best understood.



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## Glossary and Abbreviations

ABRI	Angkatan Bersenjata Republik Indonesia (The Indonesian Armed Forces)
AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
BAPPENAS	Badan Perancang Pembangunan Nasional (National Development Planning Board)
BARELANG	Batam-Rempang-Galang Islands
BBIR	Bintan Beach International Resort
BIP	Batamindo Industrial Park
BIDA	Otorita Pengembangan Daerah Industri Pulau Batam (Batam Island Industrial Development Authority)
BIE	Bintan Industrial Park
BIEA	Badan Pimpinan Daerah Industri Batam (Batam Industrial Estate Authority)
BKPM	Badan Koordinasi Penanaman Modal (Foreign Investment Coordinating Board)
BPN	Badan Pertanahan Nasional (National Land Agency)
BPPT	Badan Pengkajian dan Penerapan Teknologi (Agency for the Assessment and Application of Technology)
DKKA	Divisi Koordinasi Kontraktor Asing (Foreign Contractors Coordination Bureau)
DPR	Dewan Perwakilan Rakyat (The Indonesian House of Representatives)
DPRD	Dewan Perwakilan Rakyat Daerah (Regional Legislative Assembly)
DSP	Daftar Skala Prioritas (Investment Priority List)
EDB	Economic Development Board (Singapore)
EOI	Export Oriented Industrialisation
GOLKAR	Golongan Karya (The state political party)
GLC	Government Linked Company
IDA	International Development Association
IMF	International Monetary Fund

IMS-GT	Indonesia-Malaysia-Singapore Growth Triangle
ISI	Import Substitution Industrialisation
KADIN	Kamar Dagang dan Industri (The Indonesian Chamber of Trade and Industry)
KEPRES	Keputusan Presiden (Presidential Decree)
KOLAGA	Komando Mandala Siaga (Mandala Vigilance Command)
KOMSTALAGA	Komando Strategis Laut Siaga (Marine Command Strike Force)
KOSTRAD	Komando Tjadangan Strategis Angkatan Darat (Army Strategic Command)
KOTAMADYA BATAM	Batam Island Mayoralty
LIPI	Lembaga Ilmu Pengetahuan Indonesia (The Indonesian Academy of Sciences)
MALARI	Malapetaka 15 Januari (15 January Disaster)
MNC	Multi-National Company
NGO	Non-Government Organisation
OPEC	Organisation of Petroleum Exporting Countries
PEMDA RIAU	Riau Provincial Government
Pertamina	Perusahaan Pertambangan Minyak dan Gas Bumi Negara (The Indonesian state-owned oil company)
PHRI	Perhimpunan Hotel dan Restoran Indonesia (Indonesian Hotel and Restaurant Association)
PKI	Partai Komunis Indonesia (The Indonesian Communist Party)
PMA	Penanaman Modal Asing (Foreign Investment)
REPELITA	Rencana Pembangunan Lima Tahun (Five Year Development Plan)
SMA	Singapore Manufacturing Association
TKPPR	Tim Koordinasi Pembangunan Propinsi Riau (Riau Industrial Development Agency)

# 1

## Introduction

The history of the development of Batam Island since the 1970s is the history of the attempt to accomplish a strategic vision of President Soeharto, the philosopher-statesman of Indonesia's development over the past twenty-five years. This far-sighted perspective...specifies the development of Batam Island into an industrial, trading and transshipment area and as a tourist destination ... [The] Batam Authority led successively by Dr Ibnu Sutowo, Professor J. B. Sumarlin and myself, has made serious efforts to translate President Soeharto's vision into concrete action plans and investment programs and succeeded in changing the face of the island.

B. J. Habibie, 8 May 1992.<sup>1</sup>

In one sense, this study is concerned with what has been described as Indonesian President Soeharto's "strategic vision". Since the emergence of Soeharto's New Order government in the mid-1960s, Batam Island has played an important role as a strategic and economic outpost for Indonesia, and more specifically the government in Jakarta. When Batam was targeted for development as a base for foreign oil contractors in the late 1960s, it was a sleepy backwater of fishermen and subsistence farmers. Over twenty-five years later, Batam is a busy industrial, manufacturing and tourist area.

In a deeper sense, however, this study is an exploration of economic policy-making under the New Order government of President Soeharto which came to power in 1966 following a period of social, political and economic upheaval. It is therefore a study of Indonesian political economy. Political economy is concerned with the way in which politics influences aspects of economic policy-making and the way in which economic factors influence political processes and outcomes. Therefore, the analytical tools of both economics and political science disciplines are applied in order to reach an understanding of the processes of economic policy-making.

The aim of political economy is essentially to provide an understanding of who and what determines economic policy, and the answer lies in several key questions. How has economic change occurred? How significant have policies been? How have those policies been formulated? How significant have external factors been? How significant have domestic factors been?

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<sup>1</sup>B. J. Habibie ; "Technology and the Singapore-Johor-Riau Growth Triangle", speech delivered to Tripartite Meeting and Seminar on Economic Development in the Growth Triangle and its Environmental Impact (Batam, 8 May 1992).

Political economy involves the interaction of economic and political forces, especially political and economic structures, such as political institutions and central economic features. Selection of development strategy, and the choice and timing of economic policies depend heavily on political and economic considerations. Other factors such as personalities and ideas, as well as local, regional, national and international influences, and other inputs must also be taken into account. In a sense, and as Gilpin put it, political economy is an "eclectic mixture of methods and theoretical perspectives."<sup>2</sup>

For those reasons, this study also has broader implications, especially for students of Southeast Asian political economy, where debate revolves around the relative merits of "state-centred" and "society-centred" approaches to political and economic development.<sup>3</sup> The central question is how political and economic actions are best understood. Does the state act upon its own, or are its actions shaped by non-state influences and pressure from societal actors? Indonesia is an important part of this debate, and as a result this study seeks to contribute it. Do state-centred approaches to political economy need to be supplemented by a focus on societal actors or non-state institutions in order to understand its true character?

The central purpose of this study is, therefore, to contribute to our understanding of the nature of economic policy-making and development strategies undertaken by New Order Indonesia. Whilst much has been written on Indonesian political economy under the New Order, these studies have raised numerous and differing accounts of Indonesian politics. The aim of this study, therefore, is to qualify or confirm prevailing understanding of Indonesian political economy in order to uncover the major factors which determine economic policy in Indonesia.

There are several reasons why a study of the development of Batam Island can add to our understanding of the economic policy-making processes in Indonesia. It is argued that a study of the political economy of Batam will provide important insights into Indonesia's political economy in general, for the development of Batam has occurred within a national political and economic context. There are important parallels to be drawn.

Firstly, the Batam Island story takes place over more than twenty-five years, beginning with the advent of the New Order in the mid-1960s, and continuing up to the present

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<sup>2</sup>Robert Gilpin ; The Political Economy of International Relations, (Princeton University Press, Princeton 1987), p 9.

<sup>3</sup>See Richard F. Doner ; "Approaches to the Politics of Economic Growth in Southeast Asia" The Journal of Asian Studies, Vol. 50 No.4 (November 1991), pp 818-849. For the more general debates in political science, see for instance Myron Weiner & Samuel P. Huntington (eds) ; Understanding Political Development (Little, Brown & Co., Boston 1987). B.C.Smith ; Understanding Third World Politics : Theories of Political Change and Development (Indiana University Press, Bloomington 1996).

day. As a result, the policy processes, policy debates and attendant policy shifts involved in the development of Batam Island not only reflect, but highlight the processes occurring at the national level.

Batam is not about regional development but rather about "development of a region".<sup>4</sup> This means that although Batam is geographically distant from Jakarta, it is in fact administered directly from Jakarta. The core is not necessarily Jakarta, and the periphery Batam, for the core has to a certain extent located itself directly on the periphery. In other words, Batam may be geographically peripheral but it is politically central. For that reason the development and administration of Batam, and the overall policy set-up has followed closely developments at the national level.

The Batam story sheds light on key elements of the Indonesian political structure, including the President, the Cabinet, the bureaucracy and other leading political personalities and institutions. Changes in the national policy stance, and the main players at that level, are crucial in viewing and understanding the changes in policy on Batam, and vice-versa.

Secondly, the development of Batam Island fits neatly with the general thrust of economic policies initiated at the national level by the Indonesian government. The physical and economic transformation of Batam occurs in the context of the economic transformation of Indonesia from a resource dependent and import-substituting economy characterised by high levels of state intervention, towards one which is more outward-looking and in which manufactured exports and the private sector play a much greater role.

The change in national policy stance from inward to outward-looking industrialisation is crucial in viewing the change of policies on Batam. Despite early hopes, Batam was the focus of stymied development from the mid-1970's until the late 1980s, when regulatory changes began weaning Batam from its economic nationalist structures and continuing dependence on the oil industry and oil-related business, and in that way its development reflects the changes at the national level. Just as economic policy shifts occurred nationally, and created changes nationally, they also brought about changes almost simultaneously on Batam Island.

The aim of this study, therefore is to outline what the economic transformation of Batam Island tells us about Indonesian political economy under the New Order. The central question is what major factor, or factors, determine economic policy in

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<sup>4</sup>I am grateful to C. P. F. Luhulima of the Indonesian Institute of Sciences (LIPI) for this point. Interview, 4 March 1994.

Indonesia. It involves an examination of domestic factors, such as state and non-state institutions, individuals and business, as well as external factors such as international economic conditions and foreign capital. What has occurred on Batam Island will shed light on the leading personalities and actors, central elements of the political structure, and factors of the economy most centrally involved in Indonesian policy-making.

The following chapter reviews conceptual, theoretical and empirical approaches to Indonesian political economy as they have been applied to the New Order, and identifies where, or indeed if, revisions need to be made. It also stands as an introduction to the central players and the background to the story of Batam Island.

Then follows in chronological order, the main study of the development of Batam Island : its beginnings as a base for foreign oil contractors under the control of Ibnu Sutowo and the national oil company, Pertamina, during the early 1970s (Chapter Three); the attempts of economic ministers, led by Sumarlin, to introduce liberalising economic and policy measures and to seek cooperation with Singapore in the late 1970s (Chapter Four); a nationalistic and inward-looking approach under the tutelage of Habibie through the 1980s (Chapter Five); the introduction of liberal economic regulatory changes together with joint cooperation with Singapore in the early 1990s (Chapter Six); and finally, the creation of the Indonesia-Malaysia-Singapore Growth Triangle (Chapter Seven).<sup>5</sup> The final chapter summarises the main arguments and conclusions of the thesis.

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<sup>5</sup>The divisions used in this study differ from those used by the Batam Industrial Development Authority, which describes the development periods of Batam as follows : 1971-76, Preparation Period under Dr Ibnu Sutowo; 1976-78, Consolidation Period under Prof. Dr. J. B. Sumarlin; 1978-83, Main Infrastructure Development Period under Prof. Dr. Ing. B. J. Habibie; 1983-, Capital Investment and Continuation of Infrastructure Development Period under Prof. Dr. Ing. B. J. Habibie.

## 2

### **New Order Political Economy**

There have been two prominent features of Indonesian political economy in the New Order period. The first is a highly centralised and authoritarian policy-making system. The second is the significant shift that has taken place in Indonesia's economic structure from agriculture towards manufacturing industries.

Much has been written about these two features, most accounts of Indonesian political economy differing only in the degree of their stress on the pluralistic and monistic elements of the policy-making processes, and in their explanation of the economic successes (and failures). All, however, are in general agreement that Indonesia is an authoritarian state which provides few opportunities for participation. This chapter draws on both empirical and theoretical works to explain the main features of Indonesian political economy under the New Order.

What needs to be stressed from the outset is that Indonesian political economy is not, and has never been static. Indonesian politics, economics and society have changed considerably and significantly over the three decades of the New Order, and today are perhaps far more complex than at any time in the past. It is only with this in mind that analysis of the Indonesian polity and economy can be made.

#### **The New Order Polity**

Indonesia's official ideology, Pancasila, would have Indonesians and outsiders alike believe that under the New Order government of President Soeharto, all policy decisions are reached only after a great deal of consultation and discussion (*musyawarah*) in search of a consensus (*mufakat*). The reality, however, has been quite different. It has long been argued by observers of Indonesian politics that policy-making and policy formulation in Indonesia are confined mainly to members of the state apparatus - the general consensus being that Indonesia is an authoritarian state, one which is dominated by the vertical and horizontal outreach of the military, state institutions and senior state officials, and whose virtual monopolisation of influence over policy formation has meant that there is little scope for those outside state structures to influence policy.

Anderson argued in 1983 that the New Order was a State-qua-State, an institution with a life and interests of its own, run by and for its officials and hardly requiring societal support. As a state-qua-state, the regime was cut off from Indonesian society, and allowed little room for give and take on policy issues, or for sensitivity to public needs.<sup>1</sup> It was an argument predicated on the 'strong state' thesis, whereby the state is insulated from, and politically autonomous from, societal interests and forces; is well-organised and cohesive, with leverage to impose controls and allocate resources; and, is able to sustain those features over time.

Indeed, one key feature of New Order politics is the overwhelming importance of the Executive in determining policy. One basis for this centralisation of power is Article 33 of the 1945 Constitution which states that all areas of the economy of crucial significance to the welfare of the people must be controlled by the state. This has been used to provide a constitutional, and thus legitimising, argument for ensuring that power lies in a strong central executive and that key economic decisions are made by the government.

It is Indonesia's non-participatory system that has given the President and his ministers so much latitude, enabling them to implement policies by ministerial or presidential decree. Legislation passed by the DPR (Indonesian Parliament) never restricts the decision-making power of the Executive. Although divided into various committees charged with overseeing the work of the government, legislation is debated in the DPR only after final drafting, and is almost always passed without amendment.

However, Indonesian political economy is more complicated than Anderson's state-qua-state for, whilst illuminating in several respects, Anderson's thesis tends to ignore the roles of several elements. As Crouch noted at the time Anderson put forward his state-qua-state thesis, Indonesia was not a strong state, particularly when based on the ability to independently formulate and implement policy.<sup>2</sup> There are several reasons for this.

Firstly, the state is dominated by the position of the Presidency, and the personality of the person holding that appointment. Secondly, the existence of patron-client linkages and patrimonial practices, as prevailing between business and the state, has meant that the policy-formulation processes are often breached. Thirdly, the state is not an internally cohesive unit, and competing coalitions and internal differences in regards to

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<sup>1</sup>Ben Anderson ; 'Old State, New Society : Indonesia's New Order in Comparative Historical Perspective ' The Journal of Asian Studies, Vol.XVII No.3 (May 1983), pp 477-496. See also McVey's related argument that the New Order state had retained all the characteristics of the Dutch colonial state. Ruth McVey ; "The Beamtenstaat in Indonesia" in Ben Anderson & Audrey Kahin (ed) Interpreting Indonesian Politics : Thirteen Contributions to the debate (Cornell University, Ithaca 1982), pp 84-91.

<sup>2</sup>Harold Crouch ; Domestic Political Structures and Regional Economic Cooperation (ISEAS, Singapore 1984).

economic strategy has meant that leverage to implement coherent policies is not all-encompassing. Fourthly, the state is not immune to either domestic societal or to external influences. These elements, and they vary across sectors and issues, are crucial to a full understanding of Indonesian political-economy under the New Order.

### **Presidential Domination**

At the apex of executive government in Indonesia is President Soeharto. Soeharto has achieved a remarkable degree of personal authority and power over the past thirty years, particularly since the mid-1970s, and his role in key policy decisions is substantial. In fact, the political system reflects his personality and his personal style to such an extent that they should not be disregarded in any analysis of Indonesian political-economy.<sup>3</sup>

As noted by Schwarz :

Suharto's shadow extends so broadly over the Indonesian landscape that a discussion of any aspect of public policy must begin with Suharto's role in the debate.<sup>4</sup>

Beneath the President is the Cabinet, appointed directly by the President. Unlike government under President Sukarno, most cabinet ministers are not political operatives in their own right, and instead only formulate and implement the policies of the government.<sup>5</sup> According to President Soeharto,

In our government's system, ministers are in the position of the President's assistants and therefore are responsible to the President. In liberal or parliamentary systems, ministers may act on their own. But in our system of government, in accordance with the 1945 Constitution... our ministers are the assistants of the President...<sup>6</sup>

In practice, Indonesia's Cabinet is not a decision-making body, but meets mainly to hear guidelines from the President and report to him - playing essentially the role of administrative coordination. Soeharto has described the workings of executive government in Indonesia as such :

My assistants submit their reports directly to me and I give them my instructions immediately. Some report individually; others present their reports at meetings...

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<sup>3</sup>On Soeharto's background see : O.G.Roeder ; The Smiling General : President Soeharto of Indonesia (Gunung Agung, Jakarta 1989); Soeharto : My Thoughts, Words and Deeds - An Autobiography (PT Citra Lamtoro Gung Persada, Jakarta 1991); Michael Vatikiotis ; Indonesian Politics Under Suharto : Order, Development and Pressure for Change (Routledge, London 1993), pp 1-31; Adam Schwarz ; A Nation in Waiting : Indonesia in the 1990s (Allen and Unwin, Sydney 1994), pp 24-48.

<sup>4</sup>Adam Schwarz ; A Nation in Waiting : Indonesia in the 1990s (Allen and Unwin, Sydney 1994), p xi.

<sup>5</sup>On the other hand, there is no doubt that several government ministers have played highly political roles with both state and society. They include, in particular, Ali Murtopo, Sudharmono, Adam Malik and Benny Murdani. However, the overwhelming majority of Ministers have not been political operatives. Those that have played political roles have generally done so with Presidential approval.

<sup>6</sup>Soeharto : My Thoughts, Words and Deeds - An Autobiography (PT Citra Lamtoro Gung Persada, Jakarta 1991), p 370.

My assistants report to me, seek my directives and check whether their thinking is correct. People sometimes wonder, "What's the matter with these ministers? Whenever they have seen the President, they always say that what they intend to do is 'according to the President's directions'." But that's what actually happens. When they come to see me, they want to receive my instructions, my opinion on this or that. Of course they have their own views and plans. But they want to check these out with me to ascertain that everything is in order and that there is nothing they have neglected to consider. I give them my directives so they will not act independently of others. This is how things work.<sup>7</sup>

A similar picture is presented by Ibnu Sutowo, a former close associate and head of the national oil company, Pertamina, although in a different tone :

Everyone, without exception, does the bidding of Soeharto, and he is suspicious of anyone who acts without his permission. He can't take criticism. He wants everyone to follow his line 100 per cent. But with what consequences for the country? Just look around you. You never hear a minister make a major pronouncement without it being noted that he just emerged from a meeting with Soeharto, or that it was the President's wish that it be so. Soeharto has no interest in creative and independent actions. Look at the people around him now. Even when they know big mistakes are being made, they remain silent and agree. No one has any guts.<sup>8</sup>

All economic policy is coordinated by the Ministry of Economic Coordination, which oversees more than a dozen government departments and several government agencies. The actual involvement of government ministries depends on the policy in question, but usually involves those of finance, trade and industry. Ministers issue ministerial decrees, but policies are usually discussed and approved at regular economic coordination meetings, a forum that ministries will often use to seek the support of the Minister for Economic Coordination before initiating the policy process. Typically, the Minister of Economic Coordination, the key player in economic policy processes, will also seek a Presidential recommendation before the actual implementation of a ministerial decree. Presidential approval must be obtained for a Presidential decree or instruction. Policy recommendations must be channelled through the Cabinet Secretary at the State Secretariat. If the decree is a joint ministerial decree, then all relevant ministries must approve it. Where agreement cannot be reached on issues of serious concern, the matter is raised directly with the President.

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<sup>7</sup> Soeharto : *My Thoughts, Words and Deeds - An Autobiography* (PT Citra Lamtoro Gung Persada, Jakarta 1991), pp 367, 369-70. It is apparent from Soeharto's description that he resents the amount of credit attributed to some of his ministers for Indonesia's social and economic accomplishments, and feels a need to claim all the credit for Indonesia's successes for himself. For example, ministers dropped from the Cabinet in 1993 and who had put in decades of service were done so without public mention.

<sup>8</sup> Adam Schwarz ; *A Nation in Waiting : Indonesia in the 1990s* (Allen and Unwin, Sydney 1994), p 24.

Within ministerial meetings, there is seldom full-fledged discussion or debate. If it does take place, debate is usually about the allocation of resources, invariably between economic ministers and project and sector promoters, with Soeharto in attendance as referee balancing the protagonists.<sup>9</sup> Essentially political debate and conflict among ministers is confined to either one-on-one discussions between ministers, or takes place in interdepartmental meetings designed to reach agreement or compromise on issues of mutual concern, and for policy coordination. Very rarely does ministerial conflict become public.

The importance of the President becomes clear in the context of Batam Island where his personal support for the project, relationships with his ministers and involvement in major policy decisions suggest that he was the key player in the policy-making processes.

### **Patrimonialism and Patron-Client Ties**

Two explanations of Indonesian political economy in the late 1970s held that administration was based on patrimonial links, rather than rational or legal values in the Weberian sense. Neither explanation denied that the state monopolised policy, but argued that various distinct elements within the state structure influenced the policy-making processes.

The Bureaucratic Polity concept, as applied to Indonesia by Jackson, held that political power was located in the bureaucracy, key elements of which included the Executive and the military. Because the state had been appropriated by bureaucrats who ruled in their own interests, policy-making was therefore about competition for personal advantage, and not over questions of general policy. As a result, patron-client ties overrode the importance of political institutions and were used for gaining access to policy-makers.<sup>10</sup>

The concept of Patrimonialism was used by Crouch to point to the existence of traditional features in the political system, especially the patrimonial politics of earlier, pre-colonial Javanese empires. In particular, Crouch highlighted the importance of political and financial patronage derived from the President and other key elements at the apex of the political structure. Political competition at the elite level depended on

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<sup>9</sup>Interview with former ministers Mohammed Sadli, 22 July 1994, and Radius Prawiro, 29 July 1994.

<sup>10</sup>K.D.Jackson ; 'Bureaucratic Polity : A Theoretical Framework for the Analysis of Power and Communication in Indonesia' in K.D.Jackson & L.W.Pye (eds) Political Power and Communication in Indonesia (Berkeley, 1978), pp 23-42.

access to the President, and was about power, the distribution of appointments and opportunities for profiteering.<sup>11</sup>

Two patrimonial features of Indonesian political-economy deserve mention here. The first concerns the operations of executive government and the role of the President. Executive government in Indonesia exhibits several patrimonial features, particularly in the President's relationships with his ministers, and in the way policies are formulated, decided and made into law. The second concerns the importance of patron-client relationships, for both political and financial purposes, which interact within the wider political structure. These features have had an important bearing on Indonesia's political system, for whilst the actual processes of policy-making are generally insulated from societal pressure, they are characterised by political competition for policy influence and political power, particularly among groups and individuals around the President. Policy-making is therefore essentially viewed as a struggle between contending factions competing for the President's ear. As Schwarz put it,

In Soeharto's Indonesia, titles and positions do not necessarily imply political power. What counts is access to Soeharto.<sup>12</sup>

One of the most enduring features of the New Order has been the numerous political and economic coalitions between Soeharto, senior bureaucrats and army officers with leading Indonesian business corporations. A disparate group themselves, the cronies - essentially businessmen who enjoy a steady flow of patronage in the form of business opportunities and other favours such as the monopoly rents created by market restrictions - have consistently and persistently influenced government decisions.

They have had easy access to Soeharto, and often a familial relationship with him. In return for supporting his patronage activities, they have amassed enormous wealth through government-generated import and trade monopolies, privileged access to government contracts and the ability to bend government policies in their favour. Some of the most prominent in this group are Chinese-Indonesian businessmen Mohammed (Bob) Hasan, Prajogo Pangestu and Liem Sioe Liong, and pribumi (indigenous) businessmen (and women) dominated by the President's immediate family and close relatives.

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<sup>11</sup>Harold Crouch ; 'Patrimonialism and Military Rule in Indonesia' World Politics Vol.XXXI No.4 (July 1979), pp 571-587. Anderson also discussed patrimonialism in "The Idea of Power in Javanese Culture" in C.Holt (ed) Culture and Politics in Indonesia (Cornell University Press, Ithaca 1972).

<sup>12</sup>Adam Schwarz ; A Nation in Waiting : Indonesia in the 1990s (Allen & Unwin, Sydney 1994), p 174.

Besides the President, the leading group of officials generating and dispensing patronage are those based in the State Secretariat, the administrative arm of the Presidential office responsible for liaison with the central bureaucracy. Clientelistic alliances, however, pervade the bureaucracy, from the very top to the very bottom. As a result, most of these officials and their business partners resist market-opening reforms because they eliminate lucrative sources of income arising from regulatory controls. As noted by Robison,

For most domestic corporate groups...the springboards to business success were the state-allocated monopolies, which gave access to crucial sectors of economic activity. Forestry concessions, import licenses, distributorships for basic commodities, and contracts for construction and supply were allocated by the state, and the most successful capitalist groups were those that were able to gain access to these.<sup>14</sup>

Therefore, one key feature of Indonesian political economy is the patrimonial and clientelistic nature of policy-making within the state structure. This feature has heavily influenced the way in which policies are formulated and enacted. Cronyism has, at times, acted as a brake on economic reform, and given the impression that government ministers wield nothing like the clout of leading cronies. On the whole, however, cronyism and patron-client relationships involve only personalised and particularist concessions and not broad-based political or major economic issues. At the level of general economic policy-making, these businessmen generally do not have anything approaching the influence of the technocrats in the bureaucracy, although there are, and have been, exceptions.

On Batam Island, Patrimonial practices are evident in the way in which policies are formulated, decided and enacted, whilst Clientelistic relationships dominated the economic landscape in the early 1970s, and later in the 1990s.

### **Intra-elite Politicking**

Taking the concept of Bureaucratic Pluralism, Emmerson extended the notion that influence over policy formation was based only on patrimonial links, by including intra-state competition for policy influence. Emmerson argued that politics under the New Order was more pluralistic than previously thought since serious debate did in fact take place among various agencies within the bureaucracy. As a result, political competition was about both the distribution of personal advantage among client groups, as well as substantive policy issues within the state.<sup>15</sup>

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<sup>14</sup>Richard Robison ; "Industrialisation and the economic and political development of capital : the case of Indonesia" in Ruth McVey (ed) *Southeast Asian Capitalists* (Cornell, New York 1992), p 70.

<sup>15</sup>Donald K. Emmerson ; 'Understanding the New Order : Bureaucratic Pluralism in Indonesia' *Asian Survey*, Vol.XXIII No.11 (November 1983), pp 1220-1241.

Whilst the style of policy-making has changed over time, albeit only slightly, there have been two main constants. Firstly, as described above, there is Soeharto - he personally appoints his key ministers, his cabinet and his personal staff, is the final arbiter in accepting or rejecting advice, and heads a structure of political and financial patronage. Secondly, Soeharto has had two main groups of economic advisers - the technocrats, and a diverse group of economic nationalists - and they have influenced both the policy-making processes and policy choices.

The first group, the economists or 'technocrats', are mainly US-trained economists from the University of Indonesia who have been the chief source of macro-economic policy under the New Order. The technocrats are philosophically committed to a market-oriented policy framework, a strategy emphasising labour-intensive industrialisation and regulatory reform. In line with the prescriptions of the World Bank and other international financial organisations, they have argued that in a labour-surplus economy the emphasis should be on export-oriented manufactures that can absorb cheap labour rather than capital-intensive industries, which need protected domestic markets in order to survive. Their prominent say in policy formulation has won and maintained the confidence of foreign governments, financial institutions and investors.

Among the most prominent of the technocrats have been Widjojo Nitisastro, Ali Wardhana, Sumitro Djojohadikusomo, Mohammed Sadli, Emil Salim, Radius Prawiro, Johannes Sumarlin and Subroto. By no means an homogenous group - factions developed over the years as their numbers grew - their cohesiveness has been quite remarkable, and on most matters of principle and policy they appear to be in accord.

The technocrats have remained personal advisers to the President or members of Cabinet for many years. The key to their longevity has been their relationship with Soeharto, and that connection appears to be founded on the fact that they not only worked well together but that their policies also worked reasonably well. Soeharto has relied heavily on his economic ministers, particularly when resources were tight and choices difficult. One-time Minister for Industry, Soehoed, described the technocrats approach :

The technocrats are very good at scaring the Old Man. They keep him on the razor's edge, and that's how they get their way. They tell him that if he doesn't follow their suggestions the people will go without food and clothes, or the economy won't grow.<sup>16</sup>

However, the technocrats have never enjoyed a monopoly over economic policy-making, and their decisions are only operative with Presidential support. The

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<sup>16</sup>Adam Schwarz ; A Nation in Waiting : Indonesia in the 1990s (Allen and Unwin, Sydney 1994), p 54 fn 7

technocrats can count among their public supporters those who see gains in economic liberalisation - business people, professionals, intellectuals and foreign companies - but by no means, however, do these groups constitute a substantial political base of support. The technocrats' real basis of power has been the support of Soeharto - when he favoured rivals, they had to submit and do their best under less than ideal circumstances. Their influence has been especially weak where crony and military interests were involved, and their policies have been regularly challenged by groups advocating investment in heavily protected industries oriented to the domestic market. At such times they have been reduced to providing guidance and persuasion towards what they considered to be the desired end. As Vatikiotis noted, the extent to which the technocrats acted under constraint was clear in a succession of annual World Bank reports in which 'fine so far but where is the rest' always seemed to be the message.<sup>17</sup>

Whilst the technocrats have played a major role in determining the broad strategy of economic policy and in formulating the details of particular policies throughout the period of the New Order, their fortunes have fluctuated over the years. A typical view in the 1970s was that Soeharto gave them only a limited mandate to carry out economic reform in order to guarantee annual infusions of foreign aid and investment, but not enough power to make fundamental reforms in the way the government operated or to force cooperation from other ministries. This situation changed somewhat in the mid-1980s, when the collapse in oil prices persuaded Soeharto to allow the technocrats to begin a substantial and sustained series of economic reforms. To some extent, however, they have also suffered from their own successes. In bad times, they have enjoyed a broad mandate to determine economic policies. At other times, particularly when the economy improved, their influence has been more restricted. At all times, however, they have had control over the economically important finance and monetary portfolios.

The second broad category of economic advisers have been the economic nationalists.<sup>18</sup> Made up of very diverse elements, they have generally been opposed to the doctrine of the free market and instead been committed to the notion that strong and focused state intervention in the allocation of resources can accelerate the process of industrial development. They argue that it is worth paying the short-term costs of protectionist policies in order to promote the development of state enterprises and pribumi (indigenous) entrepreneurs who cannot as yet compete in either domestic or world markets.

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<sup>17</sup>Michael Vatikiotis ; *Indonesian Politics Under Suharto : Order, Development and Pressure for Change* (Routledge, London 1993), p 174.

<sup>18</sup>This group has been referred to variously as the 'nationalists', 'interventionists', 'technogues', 'engineers' and 'technologists'.

Two of the most forceful exponents of the view that the government should maintain a large role in the economy have been Ibnu Sutowo, head of the national oil company Pertamina until the mid-1970s, and since the early 1980s, Minister for Research and Technology, B. J. Habibie. Both have maintained that Indonesia can never hope to catch up economically with industrialised nations without a concerted, government-led push to speed up the natural pace at which technology is transferred among nations. Both have been described as a 'dynamiser' for their ability to quickly formulate and decisively implement programs of economic development, unconstrained by bureaucratic obstacles.

Like the technocrats, the economic nationalists do not necessarily have an institutional base - those in the Cabinet are the dominant public face.<sup>19</sup> They have relied on key personalities who, in the case of both Ibnu Sutowo and Habibie, had strong presidential connections. However, they hold some appeal for those who are ideologically predisposed against any move towards a more competitive and market-oriented system, and favour regulation, protection and more import-substitution.<sup>20</sup> Indonesian nationalism, generally pro-pribumi and resentful of the fact that Chinese Indonesians wield economic power disproportionate to numbers, has coloured much of the political and economic history of Indonesia since independence, particularly in the pre-1966 period. It has fairly widespread public and some intellectual support, including elements within the armed forces, state sector employees and some very vocal components of the press.

Soeharto's allegiance to each group of economic advisers - the technocrats and the economic nationalists - as well as to the cronies, has fluctuated over time, according to economic and political variables, both domestic and international. This has meant that the process of economic policy-making is a political contest between groups who compete for policy influence and political power in Cabinet and around the President. Competition between the three groups is over both substantive policy matters and the distribution of opportunities and spoils of office, and they coexist in a sometimes conflicting, sometimes cooperative relationship. As Liddle put it,

...the economists are the producers of wealth, the patrimonialists are the distributors of a large portion of it for political purposes, the nationalists are the embodiment of [Soeharto's] dream for more rapid progress towards an industrialised, internationally powerful Indonesia.<sup>21</sup>

<sup>19</sup>The views of Ibnu Sutowo and Habibie are not necessarily synonymous with closed-minded economic nationalism but are perhaps a focus point for those groups.

<sup>20</sup>For a discussion of the economic nationalists during the 1970s, see Richard Robison ; Indonesia : The Rise of Capital (Allen and Unwin, Sydney 1986).

<sup>21</sup>R. William Liddle ; 'The Relative Autonomy of the Third World Politician : Soeharto and Indonesian Economic Development in Comparative Perspective' International Studies Quarterly No.35 (1991), p 419. (403-427)

Intra-elite politicking has given the appearance that different parts of the government are working at cross-purposes, for the New Order government has pursued a contradictory mix of liberalising and protectionist economic policies. Nevertheless, Indonesia's economic record has been impressive, as shown by the growth of the economy at an average rate of 7.6% between 1970-80, and 5.5% between 1980-90.<sup>22</sup> It is clear, therefore, that intra-elite politicking has influenced the policy-making processes, and is a key feature of Indonesia's political economy.

On Batam Island, differences among key senior Indonesian officials were crucial to the policy-making processes. Conflict was particularly marked between the technocrats and nationalists who competed to impose their respective development strategies.

### **Societal Influences**

The above description of Indonesian political economy under the New Order has focused heavily on the state, from which it can be concluded that policies tend to represent less the product of lobbying by interest groups than compromises between the competing elements within the ruling elite. None of these explanations, however, allow for any significant inputs from links outside the state apparatus, or explicitly acknowledge that a structural relationship exists between the state and socio-economic forces, and that limitations on the state are imposed by existing and prevailing social, economic and political conditions.

However, several explanations emerged in the late 1980s to explain how society, non-state and societal groups have come to bear some influence, albeit minor, on Indonesian policy-makers.<sup>23</sup> They can perhaps be separated into three theoretical camps - one corporatist, one pluralist and the other structuralist - and they describe quite different means of influencing policy.

Reeve used the term Corporatism to describe the state-controlled corporatist system of interest representation in Indonesia, which consists of regularised and state-designated channels for political representation based on function.<sup>24</sup> Authoritarian corporatist structures contain and restrict society politically and contribute to the persistence of patrimonial, or clientelistic, connections as the principal mechanism for the advancement of interests in the policy process. As such, the Indonesian corporatist state demands mono-loyalty based on economic achievements and economic benefits created

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<sup>22</sup>World Bank ; World Development Report 1982, World Bank Development Report 1992 (Washington DC)

<sup>23</sup>Interestingly, at this point an influential school of political scientists were arguing that more focus should be placed on the state rather than society. See Peter B.Evans, Dietrich Rueschemeyer & Theda Skocpol (eds) ; Bringing the State Back In (Cambridge University Press, New York 1985).

<sup>24</sup>See David Reeve ; "The Corporatist State : The Case of Golkar " in Arief Budiman (ed) State and Civil Society in Indonesia (Monash University, Melbourne 1990), pp 151-176.

by the state. Whilst Corporatist channels are essentially a means for control through co-optation, they do allow some measure of input through mainly internal channels.

The major corporatist channels are organised along vertical and functional lines. They include the various groupings which make up the state-run political organisation, Golkar, numerous interest-based organisations such as KADIN (Indonesian Chamber of Commerce), and other social and political groups which adhere to corporatist government stipulations and controls. These groups tend to have general policy input but they can also have influence on particular policies.

In the late 1980s, several observations of the New Order state allowed for the participation of extra-state actors in the policy-making process. In contrast to Corporatism, most used the term 'pluralism' to indicate a less structured arrangement in which societal groups organise independently of the state. For instance, the term Managed Pluralism was used to describe the policy-making process as somewhat pluralistic but managed in the sense that the managers of policy are relatively few in number and protected from public scrutiny, accountability or a need to compromise.<sup>25</sup> Similarly, Constrained Pluralism explained that the policy-making process was not just a matter of 'once-for-all' decisions by the government, but included an awareness of a need to garner public support.<sup>26</sup>

In particular, Liddle's concept of a kind of Restricted Pluralism was used to argue that the central state apparatus did not monopolise the policy process, and that there was more beneath-the-surface political activity than hitherto thought, describing the interplay of a range of state and non-state actors in policy formation and debate, and often in an other-than-clientelistic fashion.<sup>27</sup> Such extra-state actors include the press and intellectuals. State actors include members of the DPR and Provincial governments because, whilst they are considered part of the state, their interests can vary from those of the government. The influence of these actors is both direct and indirect, either through state reaction to demands, or through 'anticipated participation', whereby the state pre-empted demands. According to Liddle,

The complex pattern of repression, performance legitimation, and symbolic legitimation has created and now sustains within and outside the political system, a solid base of support...<sup>28</sup>

<sup>25</sup>John Bresnan ; Managing Indonesia : The Modern Political Economy (Columbia University Press, New York 1993).

<sup>26</sup>The authors argued that the gradual and incremental implementation of deregulatory measures in the late 1980s was done in part to win public acceptance and support for the changes. M.Hadi Soesastro & Peter Drysdale ; 'Survey of Recent Developments' Bulletin of Indonesian Economic Studies Vol.26 No.3 (December 1990).

<sup>27</sup>The term is Macintyre's. R.William Liddle ; 'The Politics of Shared Growth : Some Indonesian Cases' Comparative Politics (January 1987), pp 127-146.

<sup>28</sup>R.William Liddle ; 'Suharto's Indonesia : Personal Rule and Political Institutions' Pacific Affairs, Vol.58 No. 1 (Spring 1985).

Pluralistic societal input through outside, and sometimes even public channels such as that emanating from the media, academics, the DPR, and business associations is rarely formal, and the government often acts in the face of it. These interests, and their articulation, have changed remarkably over the last twenty-five years.

Consistent with the pluralist approach, MacIntyre argued that state-centred approaches to Indonesia's political economy need to be supplemented by a focus on society in order to understand the character of the Indonesian state in the 1990s, particularly in light of the changes brought about by economic policy changes, observing that business in Indonesia has come to develop new and independent political capabilities through broad-based industry associations seeking significant changes to existing government policy.<sup>28</sup>

MacIntyre's study of the political activities of industry associations illustrated the process whereby the weakening of the state's capacity to maintain networks of patronage, combined with the growth of a domestic capitalist class, has created opportunities for elements of smaller domestic producer groups to secure their interests via political organisation. According to MacIntyre,

[I]ndustry bodies are being converted from formalistic institutions primarily serving the government's desire for extra-state political action into instruments for the advancement of business causes.<sup>29</sup>

The Structuralist approach, as developed by Robison, can also be included here because it is concerned with non-state interests. Robison argues that a domestic capitalist class is emerging in Indonesia which is coming to stand independently of the state, and consequently is the most important domestic non-state actor. However, rather than directly influencing policy, he argues that the principal constraint on policy-makers is not direct representation by capitalist groups but rather the indirect pressure applied by capital, both domestically and internationally. In this sense, by emphasising that capitalist power is indispensable to the economy, the state, while exercising a degree of autonomy, must always consider the consequences of economic policies which threaten the flow of investment and trade, and continued economic growth.<sup>30</sup>

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<sup>28</sup> Andrew MacIntyre ; Business and Politics in Indonesia (Allen and Unwin, Sydney 1991).

<sup>29</sup> Andrew Macintyre (ed) ; Business and Government in Industrialising Asia (Cornell University Press, Ithaca 1994), p 256.

<sup>30</sup> Richard Robison ; The Rise of Capital (Allen and Unwin, Sydney 1986). Richard Robison ; "Authoritarian States, Capital-Owning Classes and the Politics of Newly-Industrialising Countries : the Case of Indonesia" World Politics Vol.XLI No.1 (October 1988), pp 52-74.

It can therefore be concluded that state officials cannot always act independently of interests and voices in the wider polity. Several societal, and other, actors have at some time or other had an influence on the makers of economic policy and the policy formation processes, but their role and input has been limited. Despite the existence of non-state or societal input through either corporatist, pluralist or structuralist means, it is clear that the government's restrictions, and limits on, political participation have been extremely successful. Societal input, therefore, remains weak and, where it occurs, is the exception rather than the rule.

This is no less so on Batam Island where societal influence is weak in the face of the government. However, since the mid-1980s there is a noticeable trend of increased non-state pressure upon, and on occasion input into, the policy-making processes.

### **External Influences**

A further policy influence is that of the global economic system. Few accounts of Indonesian political economy have taken account of the influence of external factors and actors on the policy-making processes in Indonesia, and where they have, have generally been within a framework of dependency.<sup>32</sup>

Dependency theory, as applied to Indonesia in the early-1970s, took the view that the integration of Indonesia into the global economic system meant the subordination of the Indonesian economy to the needs of foreign capital. The New Order state was described as a client 'showcase' state, whereby the government and its officials, by restructuring the Indonesian economy and facilitating the entry of international capital, represented and served the interests of comprador and foreign capital in return for kick-backs. Because bureaucrats behaved in a patrimonial style, reserving business opportunities for themselves, their political allies and clients, they prevented the emergence of a viable and independent domestic capitalism.<sup>33</sup> Dependency theory appeared to have a strong basis until a spate of nationalist economic policies, reflecting public sentiment in the mid-1970s, placed severe constraints on foreign capital and protected both domestic industry and the development of domestic capital.

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<sup>32</sup>See for instance an article which argued that the economic ministers had adopted 'neo-colonial' economic ideology during their studies in the United States. David Ransome; 'The Berkeley Mafia' *Ramparts* (October 1970). There have also been several recent explanations of Indonesia along the lines of Dependency Theory. In particular, Tanter argued that the Indonesian state was "Rentier Militarist", stressing that external conditions explain the emergence and reproduction of the New Order state, and arguing that as a rentier state Indonesia is dependent on an essentially rentier orientation to the world economy. Richard Tanter; "Oil, IGGI and US Hegemony: Global Preconditions for Indonesian Rentier-Militarism" in Arief Budiman (ed) *State and Civil Society in Indonesia* (Monash University, Melbourne 1990), pp 51-98. See also Wayne Robinson; "Imperialism, Dependency and Peripheral Industrialisation: The Case of Japan in Indonesia" in Richard Higgott & Richard Robison (eds) *Southeast Asia: Essays in the Political Economy of Structural Change* (Routledge & Kegan Paul, London 1985).

<sup>33</sup>Rex Mortimer; 'Indonesia: Growth or Development' in Rex Mortimer (ed) *Showcase State: The Illusion of Indonesia's Accelerated Modernisation* (Angus and Robertson, Sydney 1973).

Whilst Dependency Theory drew attention to the influence of external variables, it failed to adequately explain the situation in Indonesia. Firstly, denial of the development of national capital failed to appreciate its substantial presence. Quite clearly domestic capital has emerged in Indonesia and both confronts, as well as integrates with, foreign capital. In particular, the New Order period has witnessed the emergence of a large and diversified domestic private business sector, one which is dominated by large conglomerates.<sup>34</sup> Moreover, Dependency theory ignored the fact that domestic factors also affect national responses to external constraints. Clearly the relationship between national and foreign capital is a complex one, and contingent on both changing and dynamic domestic and global conditions.

External variables can influence policy choices, indirectly and directly, for even the most insular of countries has external relations. How these influences are perceived, however, remains a matter of debate, for the consequences of external influences may not be as negative as Dependency Theory purports. That is to say that external influence does not automatically mean external control, for rarely is external influence not countered by domestic measures. However, it is not the aim here to argue the relative positive or negative consequences of external influences but to outline particular features of these influences and how they might impact on the policy-making process. It is also not to argue that domestic factors should be neglected in favour of external factors. Put simply, what needs to be better understood is the influence of external actors on the economic opportunities facing Indonesia, and its domestic capabilities to profit from these opportunities.

It is clear that the international economic system can influence development, providing a country with both economic and political choices. In Indonesia's case, it must be remembered that the recovery of the economy under the New Order government in the late 1960s was due to an injection of foreign resources - aid and investment capital.<sup>35</sup> Reliance on foreign borrowings also meant that multilateral lending agencies have some leverage on Indonesian policy-makers. For instance, a 1992 World Bank report claimed that,

The impressive growth of Indonesian industry was a testimony, among other things, to the Bank's sound analysis, advice and influence.<sup>36</sup>

More importantly, however, the global economic system can place external constraints on a country economically, and influence the growth of national capabilities necessary

<sup>34</sup>The emergence of a number of these very large and diversified domestic groups is well discussed in Richard Robison ; Indonesia : The Rise of Capital (Allen and Unwin, Sydney 1986).

<sup>35</sup>See for instance : Mohammed Sadli ; "Survival of the New Order Economy" Jakarta Post, 11 March 1996.

<sup>36</sup>Such policy input is transmitted through internal and confidential government channels. World Bank ; World Bank Support for Industrialisation in Korea, India and Indonesia (Washington 1992), p 43.

to contend with those external conditions politically. An obvious example of this influence was Indonesia's national balance of payments problems in the early to mid-1980s. Reliant on commodities for the bulk of its export earnings, Indonesia suffered from the impact of the international recession. The decline in global prices for key commodities led to a sharp economic slowdown. At the same time, however, the international economic system provided an opportunity for Indonesia. Those same externally induced economic shocks which created balance-of-payments problems for Indonesia in the mid-1980s appear to have been the catalyst for regulatory reform of the Indonesian economy which has assisted Indonesia in obtaining more benefits from the global economic system. The importance of this influence is clear in the context of the early 1990s when Indonesia's shift to an outward-looking economic strategy through the promotion of labour-intensive manufactured exports is forcing it to compete for international market share.

Furthermore, as trade and economic factors have come to play a greater role in Indonesia's international relations, Indonesia's foreign policy has become more pragmatic and tempered with economic realities. Witness Indonesia's recent interest in APEC (Asia-Pacific Economic Co-operation) and AFTA (ASEAN Free Trade Area), as well as its own unilateral trade and investment measures, all of which have led to a diversification of Indonesia's external economic relations, and all of which impact on Indonesian economic policy-makers.

There are perhaps two main external variables which can, or do, bear some influence on Indonesian policy choices and responses. The first is that of foreign states or governments, and the second that of foreign capital. Both these factors can do so directly and indirectly.

Foreign governments or nation-states can influence policy decisions in a number of ways. One such means is by direct pressure or through sanctions, usually through the use of trade or aid as leverage. For example, the United States suspended credits and aid funds to Indonesia in mid-1973 in order to force the Indonesian government to place more controls on the borrowing activities on the national oil company, Pertamina. Other examples include the United States' use of the threat of withdrawal of trade preferences in return for improved labour conditions in Indonesia during the 1990s.

Geographical proximity to other countries can also influence, and even limit possible policy choices. In Indonesia's case, they include countries with which it shares a common border - Singapore, Malaysia, the Philippines, Papua New Guinea, and Australia - as well as those countries in the region that have strategic importance - India,

China and Japan. Such influence, of course, can change over time according to geo-political realities.

On occasion it may lead to confrontation, and at other times may lead to cooperation, through bilateral agreements and pacts or multilateral arrangements. For instance, Indonesia's relations with the neighbouring city-state of Singapore in the late-1960s were marked by suspicion and confrontation and led to several policy decisions aimed at reducing Singapore's entrepot role in the region. By the early 1990s, however, Indonesia-Singapore relations were at an all-time high and involved numerous cooperative agreements in military, economic and political spheres.

Foreign capital too can influence government policy, through either direct representations to seek concessions or favourable conditions through a bargaining process, or by indirect means. In particular, international economic change and the demands of foreign capital have made it increasingly difficult for the Indonesian government to maintain nationalist economic structures. In an environment in which capital is scarce, and footloose foreign investors can choose among host countries, governments are often likely to come under pressure to maintain competitive policy environments. It is this indirect influence which is perhaps the more powerful.

There is no doubt the economic restructuring processes begun in the mid-1980s have worked to the advantage of international capital. Whilst these changes are partly the consequence of domestic capital's inability to mobilise sufficient investment to maintain levels of growth and to finance the hoped-for export drive as the state's capacity to fill this role declined, they were also partly a government response to an economic crisis, driven by the need to create conditions conducive to low-cost production for export and an increased volume of foreign investment. As Robison noted, these terms involved opening the economy to international investment and trade :

As this process of integration into the new international division of labour develops, success in attracting investment will depend largely upon the existence of conditions attractive to international investors (which may include Indonesian capitalists themselves).<sup>37</sup>

Foreign capital might also influence policies via its relationship with domestic capital. Those foreign investors without good political connections of their own can and do benefit from links with Indonesian domestic capital. In particular, foreign capital can be

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<sup>37</sup>Richard Robison ; "Industrialisation and the Economic and Political Development of Capital : The Case of Indonesia" in Ruth McVey (ed) Southeast Asian Capitalists, p 88.

attracted to crony businessmen with patrimonial relationships with government officials in order to utilise their access to government policy-makers.<sup>38</sup>

Furthermore, at the same time as foreign capital can benefit from links with domestic capital, local enterprises can develop new capabilities through international linkages. For instance, collaboration with foreign capital may expand the capabilities of local capitalists. As Robison noted,

[T]he joint venture does not lead inevitably to the subordination and decline of the domestic partner. Integration with foreign capital through the joint venture may equally be the mechanism where domestic capital moves to a higher state of capital accumulation, corporate organisation, and technological complexity.<sup>39</sup>

In particular, foreign capital may influence the organisational resources as well as the political strength of local companies vis-a-vis the state. Mackie has noted in Southeast Asia that a link with foreign capital is less likely to be a source of national economic dependency and more likely to be a potential mitigator of business dependency on domestic political patronage.<sup>40</sup> Indeed, the power of internationally-linked domestic businesses to set the agenda for state policy may increase as they consolidate a base of social and political power outside the state apparatus.

It may be the case that external linkages and challenges encourage corporatist arrangements, through both the organisational strengthening of local entrepreneurs as well as through closer public-private sector cooperation. Anek has described the situation in Thailand where the need for export-oriented economic policies encouraged stronger public-private cooperation.<sup>41</sup> In Indonesia, one domestic response might be the emergence of government-business cooperation in order to take advantage of regional and global economic trends.

Furthermore, as trade and economic factors come to play a greater role in Indonesia's international relations, including foreign policy, one of the new harbingers of wider Indonesian interests might well be its entrepreneurs and large corporations. As a result there is likely to be pragmatism and accommodation in areas involving trade, leaving

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<sup>38</sup>As MacIntyre noted, a reputation for patrimonial connections is an extremely valuable commercial asset, enabling the best-connected of business people to become proxy political patrons themselves. Andrew MacIntyre ; "Power, Prosperity and Patrimonialism : Business and Government in Indonesia" in Andrew MacIntyre (ed) Business and Government in Industrialising Asia (Allen and Unwin, Sydney 1994), pp 244-267.

<sup>39</sup>Richard Robison ; Indonesia : The Rise of Capital (Allen and Unwin, Sydney 1986), p 197.

<sup>40</sup>J.A.C.Mackie ; "Changing patterns of Chinese big business in Southeast Asia" in Ruth McVey (ed) Southeast Asian Capitalists , pp 180-182.

<sup>41</sup>Anek Laothamatas ; No longer a Bureaucratic Polity : Business Associations and the New Political Economy of Thailand (PhD Dissertation, Colombia University, New York 1989).

some room for Indonesia's corporate sector to bear some influence on economic and foreign policy.<sup>42</sup>

All external variables mentioned above involve foreign-domestic linkages - the impact of the international economic system on domestic economic and political choices, the influence of other nation-states and of geo-political realities, and the role of foreign capital and its relationship with policy-makers and domestic capital. One aim of this thesis will be to identify where, or indeed if, any of these external variables can influence the strength, the strategies and the organisational capacities of domestic interests, both economically and politically, and are a more important policy consideration than is often recognised.

The influence of external variables is clearly apparent on Batam. The international economic system, international capital and foreign governments all impacted on the policy choices facing Batam. Singapore in particular, by virtue of geographic proximity, was an important consideration in the minds of Indonesia's policy-makers.

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There are, therefore, several central characteristics of Indonesian political economy. The most important are those that occur at the elite level of the political and policy-making structure, and they are closely inter-connected - the dominance of the President, the patrimonial nature of politics, the importance of patron-client relationships and the persistence of intra-elite politicking. There are non-state features of the Indonesian polity, both societal and external, but the general view is that their influence is limited. This study will highlight the relative importance or influence of these features of Indonesian politics.

### **The New Order Economy**

Since 1965 Indonesia has undergone a remarkable economic transformation from a resource-dependent and import-substituting economy characterised by high levels of state intervention, towards one which today is more outward-looking and in which manufactured exports and the private sector play a much greater role. (See Table 2.1)

Following the economic chaos left behind by the previous government of President Sukarno in 1966 - low levels of trade, negligible foreign-exchange reserves, hyper-inflation, and production at 20-30% of capacity - the New Order government of

<sup>42</sup>Michael Vatikiotis ; "Indonesia's Foreign Policy in the 1990s" *Contemporary Southeast Asia*, Vol.14 No.4 (March 1993), pp 359-60.

President Soeharto moved to stabilise the economy, and to shift economic policy away from direct controls and heavily interventionist policies. An economic strategy, determined by the technocrats with the assistance of World Bank experts and the International Monetary Fund (IMF), placed immediate priority on controlling inflation, rehabilitating physical infrastructure, and obtaining foreign aid and private investment in order to restore Indonesia's industrial production capacity. As part of an outward looking approach, the liberalising reforms reflected both the orientation of economists themselves and the conditions demanded by western creditors.

Reliance was placed on market forces to stimulate trade and production, assisted by foreign aid from the Inter-Governmental Group on Indonesia (IGGI), in which the two main donors were the US and Japan. Foreign investment laws were liberalised in order to restore investor confidence and entice foreign capital back into Indonesia, and a generous package of incentives was introduced. The trade regime was overhauled, enabling raw materials and capital goods to again flow into the country. With almost immediate improvements in production, momentum continued to pick up in the early 1970s marked by a sharp increase in foreign investment and rising international oil prices.

**Table 2.1**

**Indicators of Economic Development, mid-1960s and early 1990s<sup>43</sup>**

	mid-1960s	early-1990s
Real GDP per capita		
- Growth (%)	±0	±5
- \$1991	190	610
Gross Domestic Investment		
(% of GDP)	8	35
Shares of GDP (%)		
- Agriculture	53	19
- Industry	11	40
- Manufacturing	8	21

<sup>43</sup>Hal Hill ; The Indonesian Economy Since 1966 (Cambridge University Press, 1996), p 5.

Liberal economic policies, however, lost some momentum in the early-1970s following the international petroleum boom which saw an enormous increase in prices for oil. Combined with a reassertion of nationalist sentiment and interventionist economic theories which argued that foreign investment benefited only a few, the government's resolve to institute liberal reform was dulled. These nationalist attacks developed into student demonstrations in Jakarta against what was seen as an open door to foreign investment, and culminated in riots during the 1974 state visit of Japanese Prime Minister Kakuei Tanaka. Directed against Japanese 'neo-colonialism' and exploitation of the Indonesian economy - Japan, large and visible, provided one third of all foreign economic assistance and Japanese investment in Indonesia had increased from US\$30m in 1971 to US\$100m in 1973<sup>44</sup> - the incident became known as Malari (Malapetaka 16 Januari or 16 January Disaster).

The result of the nationalist attacks, combined with increasing oil revenues which removed revenue constraints, was an almost complete overhaul of liberal economic measures. Trade and industry policies were redirected towards promoting import-substitution industrialisation, and the re-introduction of high tariff and non-tariff barriers protecting domestic industries. The most important restriction was that imposed on foreign investment immediately after the rioting in early 1974, which obliged foreign investors to enter into joint ventures with local partners, and closed several sectors to foreign investment. Whilst the joint-venture partnership was nominal - the foreign partner often provided equity capital, management, technology and operating capital while the Indonesian partner often contributed only land - the cost to investors was real, and the rush to invest in Indonesia came to a rapid end. Realised PMA (Penanaman Modal Asing or Foreign Investment) decreased through the late-1970s and early-1980s. While the restriction applied to all foreigners, it contributed especially to a sharp retreat by the Japanese.

The influx of oil revenues enabled the government to play a more aggressive and active role in financing, protecting and subsidising domestic capital, and in direct investment focused upon the creation of a national industrial sector. In 1974, oil accounted for 22% of GDP and 70% of export earnings.<sup>45</sup> Its share of government revenue increased from 25% in 1971 to 48% in 1974, peaking in 1981 at 62%.<sup>46</sup> At the heart of the new state-led industrial strategy were large resource-based and industrial projects involving oil refining, minerals processing, steel mills and engineering works.

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<sup>44</sup>Kunio Yoshihara ; Japanese Investment in Southeast Asia (University of Hawaii Press, Honolulu 1978), p 67.

<sup>45</sup>Wing Thye Woo, Bruce Glassburner & Anwar Nasution ; Macro economic Policies, Crises and Long-term Growth in Indonesia, 1965-1990 (World Bank, Washington 1994).

<sup>46</sup>Hal Hill ; The Indonesian Economy Since 1966 (Cambridge University Press, 1996), p 46.

The one serious challenge to the government's plan was caused by the Pertamina crisis in 1975-76 when the state-owned oil company ran up debts of US\$10.5 billion. The crisis focussed attention on billion-dollar projects, inefficiency, corruption, and unrestrained foreign borrowing. However, the massive financial rescue operation did not lead to any real change in overall economic orientation and the government was able to continue with a high level of state involvement in the economy. Whilst the Indonesian Cabinet in the late 1970s was notable for the inclusion of several prominent supporters of the physical approach to development, the government continued with cautious borrowing, a prudent fiscal policy, and concern with controlling inflation throughout the rest of the 1970s, reflecting the continued control of the technocrats over macro-economic policy.

The state-led industrial strategy continued until 1982 when international petroleum prices began to fall, causing balance-of-payments problems and foreshadowing an end to the period of oil-financed growth and state-led industrialisation. The immediate result was a reduction in development expenditure and the introduction of austerity measures. One of the first measures was the cancellation of several heavy industrial projects in 1983.

Eventually, however, the government had to adjust to further decreases in earnings from oil and exports, and was forced to retreat from most heavy industrial development. It also meant that fundamental structural change was necessary. Faced with the imperative of generating more foreign exchange, the technocrats worked to undo much of what the nationalists had done. Initially the pace and extent of their economic reforms were moderate, and confined to technocratic areas of influence, particularly in finance and macro-economic reform. However, by 1985-86, the deteriorating economic situation, caused by further oil price declines, forced the hands of economic policy-makers and the government to gradually re-introduce liberal trade, investment and economic policies. Thus began a series of structural reforms of the Indonesian economy, generally referred to as the deregulation period. Between 1985 and 1995 over twenty-five major economic reform packages were introduced.

While a number of factors contributed to the reorientation of economic policy, it is generally agreed that the single most important catalyst for change was the severe balance of payments pressures experienced by Indonesia in the mid-1980s.<sup>47</sup> The

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<sup>47</sup> Andrew MacIntyre & Sjahrir ; "Survey of Recent Developments" *Bulletin of Indonesian Economic Studies*, Vol.29 No.1 (April 1993) , p29. See also the following. Sjahrir with Colin Brown ; "Indonesian Financial and Trade Policy Deregulation : Reform and Response" in Andrew MacIntyre & Kanishka Jayasuriya (eds) *The Dynamics of Economic Policy Reform in South-east Asia and the South-west Pacific* (Oxford University Press, Singapore 1992), pp 124-137. Andrew MacIntyre ; "Politics and the Reorientation of Economic Policy in Indonesia" in Andrew MacIntyre & Kanishka Jayasuriya (eds) *The Dynamics of Economic Policy Reform in South-east Asia and the*

decline in oil revenues, due to the sharp drop in world oil prices that occurred in 1986, falling world commodity prices which impacted upon Indonesia's traditional agricultural, mineral and energy exports, and the resultant deteriorating balance of payments provided the political will necessary for substantial deregulation and economic reform to take place.

The decline in export income and tax revenues severely affected the capacity of the state to finance development and the types of major industrial projects implicit within an ISI (Import Substitution Industrialisation) framework. It also meant increased influence for the IMF and World Bank, for as the government encountered fiscal crises and as foreign debt problems escalated, the government became increasingly reliant on foreign aid and loans, thus increasing the influence of international financial institutions. The changes were also the consequence of domestic capital's inability to mobilise sufficient investment to maintain levels of growth and to finance the hoped-for export drive as the state's capacity to fill this role declined.<sup>48</sup> Therefore, the process of regulatory reform since the mid-1980s can be explained as a pragmatic response to the constricted economic situation in which Indonesia found itself as oil revenues continued to fall.

The pace and extent of economic reform since 1986 has been nothing short of remarkable. Wide-ranging reforms to the trade and investment regimes, and deregulation of the banking and financial sector, have witnessed impressive and positive results - reduced dependence on oil, increased non-oil exports and non-oil government revenues, a stronger manufacturing sector, and increased foreign and domestic investment.<sup>49</sup>

The thrust of the reform process has come from private-sector-led export-oriented industrialisation. A World Bank report had noted in the early 1980s that the Indonesian government engaged in policies and practices that inhibited any advance towards manufacturing for export, stimulation of the private sector and promotion of labour-intensive industries.<sup>50</sup> Yet, the most impressive feature of the policy reform drive of the

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South-west Pacific (Oxford University Press, Singapore 1992), pp 138-157. M.Hadi Soesastro ; "The Political Economy of Deregulation in Indonesia" Asian Survey, Vol.29 No.9 (September 1989), pp 853-869.

<sup>48</sup>Richard Robison ; "Industrialisation and the economic and political development of capital : The case of Indonesia" in R.McVey (ed) Southeast Asian Capitalists , p86.

<sup>49</sup>The sectors of the economy most extensively affected by deregulation have been finance, trade and investment. However, since the economic focus of Batam Island is on trade and investment, the details of financial deregulation are not discussed here. These measures are well discussed in Sjahrir with Colin Brown ; "Indonesian Financial and Trade Policy Deregulation : Reform and Response" in Andrew MacIntyre & Kanishka Jayasuriya (eds) The Dynamics of Economic Policy Reform in South-east Asia and the South-west Pacific (Oxford University Press, Singapore 1992), pp 126-132. The authors also provide a list of deregulation measures from June 1983 until June 1989.

<sup>50</sup>John Bresnan ; Managing Indonesia : The Modern Political Economy (Columbia University Press, New York 1993), p 216.

late 1980s has been the fairly successful and gradual move from ISI to EOI (Export-oriented Industrialisation), through the encouragement of export industries in order to increase export earnings, especially non-oil earnings, although there have been major exceptions.

Since 1987 there has been a dramatic increase in both domestic and foreign investment in Indonesia, most of it in export-oriented activities. It occurred in response to improvements in a previously unattractive investment climate and in the country's trade regime. Foreign investment, the majority of which has been export-oriented, has surged into the country with the steady improvement in the investment climate, and has occurred mainly in fields in which Indonesia has a strong comparative advantage, such as labour and resource intensive activities.

Foreign investors have been particularly responsive to improvements in Indonesia's investment climate, as well as other trade, financial and industrial reforms. Approved foreign investment increased from US\$1billion in 1986/87 to US\$26billion in 1994. Domestic investors, too, have responded, signifying the growth of a robust domestic private sector. Approved domestic investment increased from Rp5.7trillion in 1986/87 to Rp59trillion in 1994.<sup>51</sup>

Several pull factors underpinned this investment boom in Indonesia. Firstly, the improved investment climate, particularly for foreign investors, was a result of the many reform measures undertaken by the government.<sup>52</sup> Secondly, the strong and sustained domestic recovery of the Indonesian economy. Thirdly, the push of outward investment from the Asian NICs and Japan into newly competitive low-wage countries such as Indonesia, due to appreciation of their currencies, rising production costs, space constraints and environmental concerns.<sup>53</sup>

Growth in the economy has been fuelled in recent years principally by the non-oil sector. Trade and other regulatory reforms have now made exporting a more viable

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<sup>51</sup>Note : There is a tenuous relationship between approved and realised or actual investment. Mari Pangestu ; "The Indonesian Economy : Booms and Macro-Economic Pressures" Southeast Asian Affairs 1992 (ISEAS, Singapore 1992), p142. Anwar Nasution ; "Survey of Recent Developments" Bulletin of Indonesian Economic Studies Vol.31 No.2 (August 1995), p 37.

<sup>52</sup>Several steps were taken to attract foreign investment, including : allowing 100% foreign ownership, BKPM (Investment Coordination Board) investment promotion missions, bilateral investment guarantee agreements, bilateral tax treaties, simplifications in the licensing regime, a shorter Negative List, relaxation of local content requirements for export-oriented businesses, devaluations which improved the merits of exports, a more accommodative attitude towards expatriates, and reducing the minimum required amount of foreign equity investment in order to encourage small and medium-scale operations. Thee Kian Wie ; "The investment surge from Asia's NICs into Indonesia" in Hal Hill & Terry Hull (eds) Indonesia Assessment 1990, p68-70. Hal Hill ; "The Economy, 1991/92" , in Harold Crouch & Hal Hill (eds) Indonesia Assessment 1992 , p31.

<sup>53</sup>For example, the four NICs (South Korea, Hong Kong, Taiwan and Singapore) accounted for 70% of investment approvals in the textile, garment and footwear industries in 1989. Hal Hill ; "Manufacturing Industry", in Anne Booth (ed) The oil boom and after : Indonesian economic policy and performance in the Soeharto era, p235.

undertaking. Reforms not only attracted more foreign investment, but shifted the orientation of foreign firms to a stronger emphasis on export-oriented investment, leading to a surge in manufactured exports, particularly in labour-intensive industries.<sup>54</sup> In 1986, 42% of all approved foreign investment projects were export-oriented. By 1989, 79% of a much-larger number of projects were directed to the export market, significantly widening the base of the economy.<sup>55</sup> Manufactured exports increased by almost 25% in 1991.<sup>56</sup> A similar switch has also been evident in the case of domestic investments. The main reasons for this were industrial and trade policy reform packages put in place after 1986, which corrected the earlier bias against internationally competitive manufacturing exports.

By the mid 1990s, deregulation had produced several positive results, most significantly an overall improvement in the economic structure that existed in the early 1980s. There was evidence of a recovery in private investment, foreign and domestic, most of it in manufacturing. The private sector was for the first time since independence the driving force behind economic growth. Non-oil exports had increased significantly, and the economy was less dependent on oil, minerals and primary commodities overall. These developments were not wholly attributable to Indonesian government policies, for the same years also saw a general surge of investment into Southeast Asia.<sup>57</sup>

However, there is criticism that reforms have been insufficient, particularly as other countries have adopted more liberal foreign investment policies. A slackening in foreign investment flows in the mid-1990s is of considerable concern, for just as the foreign investment boom of 1989-91 fuelled later growth of export industries, a slowdown in foreign investment approvals may dampen export industry expansion in years to come. There are also doubts about the continued pace of export growth, for the investment boom has strained the capacity of infrastructure. Bottlenecks in the supply of electricity, telecommunications services and industrial water, and in the operations of ports, are emerging as serious constraints on industrial expansion.<sup>58</sup>

Despite the extensive reform of the financial and trade sectors of the economy, the sword of state intervention dangles constantly overhead. Key or strategic industries still remain under state control. Furthermore, Indonesia continues to suffer from an

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<sup>54</sup>Thee Kian Wie ; "The investment surge from Asia's NICs into Indonesia" in Hal Hill & Terry Hull (eds) Indonesia Assessment 1990, p68.

<sup>55</sup>Thee Kian Wie ; "The investment surge from Asia's NICs into Indonesia" in Hal Hill & Terry Hull (eds) Indonesia Assessment 1990, p70.

<sup>56</sup>Hal Hill ; "Survey of Recent Developments" Bulletin of Indonesian Economic Studies, Vol.28. No.2 (August 1992), p3.

<sup>57</sup>John Bresnan ; Managing Indonesia : The modern political economy, pp 264-265.

<sup>58</sup>Andrew MacIntyre & Sjahrir ; "Survey of Recent Developments" Bulletin of Indonesian Economic Studies, Vol.29 No.1 (April 1993), p21.

antiquated and unpredictable legal system, widespread nepotism, corruption and political patronage. Economic reforms too, are threatened by public unhappiness with the rising dominance of foreign investors and ethnic-Chinese businessmen, and the fear of a nationalist backlash remains very real.

Continued economic success will depend largely upon the existence of conditions attractive to investors, both foreign and domestic. The state is already finding itself heavily involved in ensuring these conditions - low wages, disciplined and appropriately skilled workforce, attractive taxation, efficient infrastructure, acceptable investment laws, political stability, regularised and transparent bureaucratic procedures - yet much will depend on how these conditions are managed.

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It is within the national political and economic context described above that the development of Batam Island has occurred. A study of the political economy of Batam Island will provide important insights into Indonesia's political economy in general. It will shed light on key elements of the political structure, including the President, the Cabinet and the bureaucracy, as well as on central features of the economy, such as oil, manufacturing, trade and investment. As a result, it will shed light onto what determines economic policy in Indonesia.

## 3

## The Pertamina Period

Batam Island, one of over three thousand islands in the Riau Archipelago, lies on the fringes of the Republic of Indonesia, twenty kilometres southeast of Singapore.<sup>1</sup> According to local residents, the name Batam derives from *Batu Ampar*, literally meaning rocks washed in from the sea.<sup>2</sup> Having little historical significance, albeit a minor role in the various formations of the Malacca-Johor-Riau Sultanates between the 15th and 19th centuries<sup>3</sup>, the little-known, relatively infertile and low-populated island's only relevance to early and mid-20th Century national and international affairs lay in a rubber estate during the Dutch and Japanese periods.<sup>4</sup>

In the newly independent Indonesia of the 1950s, Batam Island was a flourishing operational base for pirates and smugglers.<sup>5</sup> By the late-1960s, the local population, a mix of Chinese and various Indonesian ethnic groups, including the *orang laut* (a seafaring ethnic group), and consisting mainly of fishermen and farmers of coconut and rubber trees, numbered around 3,000.<sup>6</sup>

In 1968, the Indonesian national oil company, Pertamina, in partnership with foreign oil contractors began developing a land parcel on the northern coast of Batam as an offshore logistic and oil services base. By the height of the oil boom in the early 1970s, the whole of Batam Island was being developed by Pertamina, not only as an offshore base for the oil industry but also as an industrial and tourist area. As the increasingly ambitious plan took form, it stalled due to unforeseen domestic and international factors in 1975.

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<sup>1</sup>Geographically, Batam Island at 415 km<sup>2</sup> in size, is generally flat, with rolling hills surrounding a ridge that rises about 160 m above sea level in the Southeast and covered in secondary jungle.

<sup>2</sup>*Jakarta Post*, 6 February 1988.

<sup>3</sup>Batam Island was essentially by-passed because surrounding islands had better natural harbours and were abundant with natural resources. It was, however, an important area for an indigenous seafaring ethnic group known as the *orang laut*, a vital component of the Sultanates who lived off piracy and trade in ocean produce. Leonard Andaya ; *The Kingdom of Johor, 1641-1728* (Oxford University Press, Kuala Lumpur 1975), p 44. See also J.G.Schot ; 'De Batam Archipel' (1882).

<sup>4</sup>*Suara Pembaruan*, 18 February 1993.

<sup>5</sup>*Indonesian Perspectives*, December 1974, p 109. *Warta Pertamina*, Juni 1971 (No.1 Th.VI).

<sup>6</sup>*Batam Island Investment Guide*, (Delta Orient Private Ltd, Singapore, 1975), p 19.

## The Origins of Development

Just exactly who came up with the first idea to develop Batam Island, and for what reasons, is important when attempting to understand the political economy behind Batam Island's development, yet is also difficult to determine. Thinking about developing Batam Island began in the mid-1960s, if not beforehand, initially amongst Indonesian troops stationed on Batam Island, and then within Pertamina, the Indonesian national oil company.

### A Soldier's Idea

During the mid-1960s, Batam Island was one of Indonesia's front lines during *Konfrontasi* with Malaysia and Singapore. Between 1962-1964, Batam was a base for subversive activities against Singapore. Headquartered at Sekupang, the base was run by the former assistant naval attache in Singapore, Letnan Bambang Partono, who recruited, trained, directed and financed agents in Singapore.<sup>7</sup>

By the height of *Konfrontasi* in 1965, Batam was stationed by at least 1,000 marines operating under KOLAGA (Komando Mandala Siaga or Mandala Vigilance Command), which was in charge of coordinating and directing all military activities against Malaysia and Singapore.<sup>8</sup> Army Commander, General Achmad Yani, was thinking of the troops on Batam Island when he described KOLAGA's "single task" as "at the right moment to attack and destroy Singapore."<sup>9</sup>

One soldier who visited the island was current Indonesian President, Soeharto. According to Soeharto, the origins of the plan to develop Batam Island occurred when, as Wakil Panglima Dwikora (Deputy Commander of the *Konfrontasi* campaign), he inspected the Sumatra area, including Batam Island. While resting he came up with the idea that Batam Island was strategically positioned to replace Singapore, and after becoming President he began realising his idea.<sup>10</sup> However, if indeed Soeharto did come up with an idea to develop Batam Island, he was not the only one to do so.

<sup>7</sup> See Department of Information, Malaysia ; *Indonesian Intentions towards Malaysia* (Kuala Lumpur 1964), p 16. Departemen Pertahanan & Keamanan ; *Sedjarah Operasi-Operasi Gabungan Dalam Rangka Dwikora* (Jakarta 1971), pp 25, 56. F.J.George ; *The Singapore Saga* (F.J.George, Singapore 1985), p353. Harold James & Denis Shiel-Small ; *The Undeclared War : The story of the Indonesian confrontation 1962-66* (Leo Cooper, London 1971), p 65.

<sup>8</sup> *Indonesian Perspectives*, December 1974, p 109. *Kompas*, 6 December 1987. The KOLAGA Command was headed by Air Vice-Marshal Omar Dani, but his deputy Major-General Soeharto (later President) was said to wield considerable control.

<sup>9</sup> Berita Yudha, 9 July 1965 in Harold Crouch ; *The Army and Politics in Indonesia* (Cornell University Press, 1978), p72. See also Departemen Pertahanan & Keamanan ; *Sedjarah Operasi-Operasi Gabungan Dalam Rangka Dwikora* (Jakarta 1971), p 69.

<sup>10</sup> This story was told during a speech in 1994 which essentially defended the government's decision to develop Batam Island against domestic criticism. *Suara Pembaruan*, 20 February 1994. *Kompas*, 21 February 1994. However, the first to give an indication that it was Soeharto who came up with the idea, was Minister for Research

In 1966, Chief-of-Staff of Komstralaga<sup>11</sup> (Komando Strategis Laut Siaga or Marine Commando Strike Force), Commodore Fritz Swak, posed a question to his men while they sat watching the lights of Singapore from Batam Island, 'Why don't we create something like Singapore on this island?' The idea was discussed further, and eventually led to a study being conducted by a number of officers. The study, containing descriptions, maps, drawings and details such as fresh-water sources and coastal-water depths, was presented to the army, and also to Pertamina. President-Director of Pertamina, Major-General Ibnu Sutowo's response was reportedly that it was a good idea but that it wasn't yet the right time for such activity.<sup>12</sup> The Komstralaga troops were dispersed by newly appointed President Soeharto after the end of *Konfrontasi* towards the end of 1967.

### **Pertamina's Idea**

With the end to *Konfrontasi*, Pertamina took an interest in Batam Island. Its first foray was the construction of a 1,500-tons a day drinking-water installation at Sekupang to supply its oil storage installation on neighbouring Sambu Island which had previously been forced to bring in drinking water from Pladju or, ironically, to buy it from Singapore.<sup>13</sup> It was, however, the emerging oil boom in Indonesia which first turned Pertamina's attention seriously to Batam Island.

In 1968, Stephen Roszel, Head of the Far East for Ingram Contractors Inc., an American company servicing foreign oil contractors, visited Pertamina's DKKK (Divisi Koordinator Kontraktor Asing or Bureau for Foreign Contractors) requesting a logistics and oil services base.<sup>14</sup> When Roszel was unable to find a suitable spot on the north coast of Java, the Deputy-Director of the DKKK, Martalogawa, suggested that he try

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and Technology, B.J.Habibie. According to Habibie in 1991, Soeharto had been on Batam during *Konfrontasi* with Malaysia and apparently found Batam's position to be strategic from economic, trade and military perspectives. After becoming President, it was Soeharto himself who pushed and encouraged the development of Batam as a centre of industry, shipping, logistics and as a tourist destination. *Suara Karya*, 12 November 1991.

<sup>11</sup>The Komstralaga Command, formed in November 1965 and made up of two brigades, was one of many under the command of Rear Admiral Omar Basri (Obi) Syaaf, later Chief of the National Maritime Command (Kohanmanas). Details of the KOLAGA Command structure can be found in Departemen Pertahanan & Keamanan ; Sedjarah Operasi-Operasi Gabungan Dalam Rangka Dwikora (Jakarta 1971).

<sup>12</sup>Interview with Major (ret) Rein Gonie, a marine and member of Komstralaga based on Batam Island from mid-1966 to late-1967, 1 August 1994. Those who prepared the study were Fritz Swak, Rear Admiral Omar Basri (Obi) Syaaf, Major Yansen Sitompul and Major Rein Gonie. One of the Brigade Commanders was Brigadier-General Anwar, and the Chief-of-Staff was Brigadier-General Tito Soeharto, later 5th Assistant for Civil and Territorial Affairs.

<sup>13</sup>Pertamina : Laporan Tahunan 1969 (Pertamina, Jakarta, 1970). Warta Pertamina, July-August 1970 (No.2-3 Th.V). Warta Pertamina, Juni 1971 (No.1 Th.VI).

<sup>14</sup>Ingram Contractors Inc was an affiliate company of the Ingram Corporation, with a central office in New Orleans, Louisiana, headed by Managing-Director W.J.Benton. Warta Pertamina, Juni 1971 (No.1 Th.VI). For details on PT Ingram Contractors Indonesia, 99%-owned by Ingram Corporation, see Berita Negara Perseroan Terbatas (hereinafter BNPT) No.379 1972. The DKKK coordinated all activities of foreign contractors. At the time it was made up of General Hartawan Wirjodiprojo (Director), Col. Rochsidi (Hartawan's Personal Staff), Martalogawa (Deputy Director for Services), Hadi Suwito (Legal Department), Ir Harsono Hadiputro (Deputy Director for Technical Matters), Ir Wishnu Hidayat (Technical), Ir Darius Siahaan (Technical) and one other in logistics. Interview with member of the DKKK, Hadi Suwito, 2 September 1994.

somewhere closer to Singapore, perhaps one of the adjacent islands, in consideration of the fact that oil exploration had increased in the area following the discovery of new oil deposits and that the base could therefore be used by other foreign contractors. Roszel flew his light-plane around the area, and decided on Batam Island as the nearest and most suitable place. By the end of 1968, Roszel had already surveyed Batam Island and built a hut on the north shore at Batu Ampar. Preparations were then made for the creation of a base.<sup>15</sup>

In early 1969, President-Director of Pertamina, Ibnu Sutowo, together with a team from Pertamina, visited Batam Island for the first time, having to wade to shore because there was no pier.<sup>16</sup> The group met with the local Camat (sub-district Head of local government) of Batam, and the Bupati (Regent) of the Riau Islands, Major Edi, who, as was often the case in frontline areas, was from the military. After explaining the Pertamina idea for a base at Batu Ampar, both authorities granted permission, with the hope that there would be opportunities for local employment, and in return for compensation paid by Roszel.<sup>17</sup>

The Governor of Riau, Arifin Achmad, who like all provincial governors had been instructed by the Minister of Internal Affairs to facilitate foreign investment, also welcomed the idea and signed an agreement to transfer title of a land parcel of 300 ha. at Batu Ampar into Pertamina's name.<sup>18</sup> With arrangements made, Martalogawa drew up a report for DKKA Director, General Hartawan, who was close to President Soeharto and able to solicit his support. With the approval of both Ibnu Sutowo and Soeharto, the plan to develop a base on Batam Island could proceed.<sup>19</sup>

By mid-1969, PT Ingram Contractors Indonesia had begun building its supply-support base at Batu Ampar - which included a 3km-long dirt road, a small pier and a warehouse - as a wholly private-sector development, due solely to the pioneering spirit of Stephen Roszel and Ingram, Pertamina's role being limited to simply providing assistance and supervision from Jakarta and the Pertamina Liaison Officer in

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<sup>15</sup>Interview with member of the DKKA, Martalogawa, 2 August 1994.

<sup>16</sup>The team included Hartawan, Roszel, Suwito, Martalogawa, Rochsidi and others. Interview with Hadi Suwito, 2 September 1994.

<sup>17</sup>Interview with Hadi Suwito, 2 September 1994.

<sup>18</sup>An agreement for the transfer of 300 hectares of land at Batu Ampar was later signed in Jakarta on 21 October 1969 between Pertamina and the Riau Provincial Government. *Warta Pertamina*, November-Desember 1969. Interview with Martalogawa, 2 August 1994. On Mendagri instruction, see *Laporan Gubernur Propinsi Riau* (Jakarta, October 1969), p 16.

<sup>19</sup>Interview with Martalogawa, 2 August 1994. Interview with Hadi Suwito, 2 September 1994. The Ministry of Transport, Communications and Tourism was also looking at Batam Island. Minister Frans Seda had visited Batam Island in 1969, concerned with the smuggling and barter trade in the Riau Islands, and later created a Batam Board within his Ministry to explore ways to develop Batam Island as a sea transport hub and tourist site, and came up with a US\$350 million plan. The plan was rejected by Bappenas, the State Planning Board, and handed over to Pertamina. As Pertamina was already working on its own ideas for Batam Island, Frans Seda became an adviser on Batam Island to Ibnu Sutowo. Interview with Frans Seda, 22 August 1994.

Singapore.<sup>20</sup> Known as the Batam Island Offshore Base, for use solely for the needs of exploration and the development of offshore oil areas in Indonesia, and possibly Southeast Asia, it was officially opened by Ibnu Sutowo on the 6 October 1969.<sup>21</sup> (See Map 3.1). Pertamina described the project as having,

a very important meaning for offshore exploration in Indonesia and in the future will have a very large influence for Indonesian economic growth in general and for the Riau Archipelago in particular.<sup>22</sup>

The Indonesian government acted to promote and safeguard the development of Batam Island Offshore Base with Presidential Decree No.65, issued on the 19th October 1970, which designated Batam Island as a "logistics and operational base for activities in conjunction with the exploration and exploitation of offshore natural gas and oil". The Decree placed the President-Director of Pertamina in charge of Batam Island's development, and directly responsible to the President. The Decree stipulated that, in the first stage, development be limited to projects linked with the operational and logistics base for the offshore oil industry. All costs associated with the development were to be covered by Pertamina.<sup>23</sup>

#### **Motivations behind the development of Batam Island Offshore Base**

The development of the Batam Island Offshore Base was timely. The New Order government of President Soeharto, having taken control with a promise to restore economic stability and promote development, was consolidating its position. The 1967-68 Investment Laws, the liberalisation of foreign trade and the strengthening of political stability had created conditions favourable for the exploitation of new commercial opportunities by foreign investors and Indonesian business interests. By 1969, these government policies were taking effect.

This was particularly the case in the oil sector where Pertamina had begun courting foreign oil-explorers and companies servicing the oil industry. Ibnu Sutowo and the DKKA together were essentially a one-stop provider of services and the only liaison with the government for investors in the oil industry.<sup>24</sup> As one foreign contractor said, "Once Pertamina had agreed [to the contract], it wasn't difficult to have it passed through the Department of Mines, whilst the representative from the Foreign

<sup>20</sup>Petroleum News, June 1972, p2. Interview with Martalogawa, 2 August 1994.

<sup>21</sup>Warta Pertamina, November-Desember 1969. Warta Pertamina, January-February 1970 (No.8-9 Th.V).

<sup>22</sup>Warta Pertamina, April-May 1970.

<sup>23</sup>Keputusan Presiden No.65 1970 (19 October 1970). For summaries of the Decree at the time, see Warta Pertamina, Desember 1970 (No.7 Th.V). Pertamina : Laporan Tahunan 1970 (Pertamina, Jakarta, 1971).

<sup>24</sup>It should be noted that whilst a foreign investment team had been established to assess investment applications in 1967, in the case of investment in the oil industry, it was not consulted. Interview with Mohammed Sadli, 22 July 1994. Indeed, guidelines for foreign investment formulated by the technocrats were often ignored. Harold Crouch ; The Army and Politics in Indonesia (Cornell University Press 1978), p 323.

Investment Team only participated by attending the signing ceremony."<sup>25</sup> By the end of 1969, Pertamina had attracted to Indonesia, some 30 foreign oil companies and many more providers of services.<sup>26</sup>

In effect, the Presidential Decree for Batam Island filled a vacuum in the absence of a detailed program for the oil sector in Repelita I (Rencana Pembangunan Lima Tahun or Five-Year Development Plan), which had only placed priority on the agricultural sector and associated support industries. The oil sector was one of the major contributors to Indonesia's economic development - between 1966 and 1970 oil production rose by 85%.<sup>27</sup> With an increasing number of foreign oil companies operating offshore the need for a logistics base was immediately felt, and as one of four new oil service and supply bases inaugurated to offer services previously supplied by Singapore, Batam Island was an important part of the strategy. Not only was Batam Island close to Singapore, and to the major supply route through the Malacca Straits, but the island was close to offshore oil operations in the Java Sea, and thus was one of the few strategic locations for the oil industry in Indonesia. The plan was to create something like the 'Houston' of Southeast Asia.<sup>28</sup>

President Soeharto's support for the Batam Island project appeared to arise in part from security concerns.<sup>29</sup> Security concerns were common, both in Jakarta and the provinces, in regards to border areas. Indeed, the Batam Island project was said to be supported by the military leadership in Jakarta in order to promote 'regional resilience'.<sup>30</sup> The Governor of Riau was still talking about the threat of a PKI (Partai Komunis Indonesia - Indonesian Communist Party) resurgence and infiltration in the Riau Islands as late as 1969.<sup>31</sup> As an example, Sambu Island, an oil installation adjacent to Batam Island that stored Kuwaiti crude, was considered to have not only an economic role but also a security and defence role. In 1970 the Regional Army Commander for Sumatra, Major-General Achmed Thaher, was warning Pertamina

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<sup>25</sup>Ekspres, 7 November 1970, p14.

<sup>26</sup>John Bresnan ; Managing Indonesia : The Modern Political Economy (Columbia University Press, New York 1993), p 171.

<sup>27</sup>Far Eastern Economic Review, 25 December 1971.

<sup>28</sup>Interview with Ibnu Sutowo, 23 August 1994. Interview with former Minister, Mohammad Sadli, 22 July 1994. It was also intended to relieve Jakarta as the sole depot for the equipment necessary for offshore exploitation and the extraction of oil and gas in the Natuna Islands and Northern Sumatra. Philippe Regnier ; Singapore : City-State in South-East Asia (S.Abdul Majeed, Kuala Lumpur 1992), p75.

<sup>29</sup>Interview with BIEA Secretary, Dr E. Sanger, 20 November 1994.

<sup>30</sup>K.C.Tan ; "The Pertamina Model of Economic Development in Indonesia, 1965-1975" in Gordon Means (ed) Development and Underdevelopment in Southeast Asia (McMahon University Press, Ottawa 1977), p 40. The author's claim that the Batam Island project was prompted by the military leadership is incorrect. It was simply supported by the military leadership.

<sup>31</sup>Laporan Gubernur Propinsi Riau (Jakarta, October 1969), p 19.

employees on the island of the dangers of foreign infiltration and subversion in the area.<sup>32</sup>

However, the main motivation of the Indonesian government was to reduce Indonesia's economic dependence on Singapore. In a 1970 speech, inaugurating the first offshore platform produced by Ingram on Batam Island in the Java Sea, President Soeharto said that Batam Island was just one effort to save foreign exchange and was oriented to the possibility of replacing Singapore's role in the future.<sup>33</sup> At the same time, however, he was stressing to Singaporean officials that whatever means were taken were "purely with a view to promoting the nation's economic interests."<sup>34</sup>

Whilst the boom in the petroleum industry did much for Indonesia's financial position, its multiplier effects on the economy were still relatively slight. This was partly because the companies concerned used Singapore as their regional base for supply, maintenance and other activities when offshore operations began. Whilst most of the search for oil was conducted in Indonesian waters, Singapore was the regional centre for oil exploration. Some 30 of the world's major oil companies had offices in Singapore to control their exploration, and oil itself was becoming a rapidly growing contributor to the Singapore economy, ranking only second to the rubber trade.<sup>35</sup> This, of course, was welcomed by Singapore which, with better housing, office space and shipbuilding and repair facilities, was profiting to the tune of about US\$15.5 million monthly by 1971.<sup>36</sup> By 1972, Singapore had become the second biggest refining centre in Asia behind Japan, refining 500,000 b/d<sup>37</sup>, with bulk oil shipments alone making up 79% of Singapore's total sea-borne cargo.<sup>38</sup> By the end of 1970 there were 41 international oil corporations operating in Indonesia<sup>39</sup>, mainly in offshore areas, yet many of these still found Indonesia's facilities inadequate, and so decided to make Singapore their base of operations because of Singapore's sophisticated business, communications and transport facilities, and government incentives.<sup>40</sup>

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<sup>32</sup>Warta Pertamina, August 1970 (No.2-3 Th.V).

<sup>33</sup>Warta Pertamina, November 1970 (No.6 Th.V).

<sup>34</sup>Lee Khoo Choy; An Ambassador's Journey (Times International, Singapore 1983), p 190.

<sup>35</sup>In 1970 there were 13 oil companies, 8 geo-physical servicers, 7 drilling contractors, 6 consulting firms and more than 45 service, supply and construction firms connected with oil exploration in Singapore. Asia Magazine, 21 June 1970 in E.Paul; The Viability of Singapore: An Aspect of Political Geography (PhD Thesis, University of California, Berkeley 1973), p 221.

<sup>36</sup>Far Eastern Economic Review, 25 December 1971.

<sup>37</sup>E.Paul; The Viability of Singapore: An Aspect of Political Geography (PhD Thesis, University of California, Berkeley 1973), p 219.

<sup>38</sup>G.G.Thomson; "The Politics of Singapore's Energy Needs", Petroleum News, December 1972, pp 2-7.

<sup>39</sup>Time, 31 August 1970. Different figures are given in Singapore Economic Bulletin, 31 October 1970, pp 34-35 (37 companies at the time) and Far Eastern Economic Review, 25 December 1971 (40 companies at the time).

<sup>40</sup>E.Paul; The Viability of Singapore: An Aspect of Political Geography (PhD Thesis, University of California, Berkeley 1973), p 219.

Indonesians at the time were resentful of the spillover of profitable economic activities to Singapore, and felt that such activities should remain in Indonesia.<sup>41</sup> Singapore had long acted as an entrepot for Indonesia's exports and imports, and with the advent of the oil exploration boom, appeared to be profiting further. It was only natural that the country in whose territorial lands and waters the oil was found would desire to keep the profits and the sophistication of the industry to itself. Pertamina and the Indonesian government endeavoured to achieve just that - a shift of the centre of gravity of the regional oil industry away from Singapore. Minister of Mining, Sumantri Brodjonegoro, indicating the Indonesian government's irritation with the growth of Singapore as an operating base for oil exploration, later said,

Singapore has been clever in building up all the service facilities needed for exploitation of oil and minerals and it takes advantage of its good location. We must acknowledge it is well equipped in providing these services. But we would like to provide them ourselves, so we now encourage investors to set up servicing bases in Indonesia.<sup>42</sup>

Pertamina and the government's idea of developing Batam Island was intended to reduce dependence on Singapore, which at the time handled some 90% of Indonesia's imports/exports, initially by competing directly with Singapore's oil servicing and processing industry, such as by carrying out engineering work currently handled in Singapore and elsewhere.<sup>43</sup> Indonesia clearly wanted to reduce its economic dependence on Singapore, and for some in Indonesia the development of Batam Island was not viewed as being based on joint growth or cooperation but as both a political and economic instrument, or a type of non-military confrontation, against Singapore. Indonesian attitudes towards Singapore could perhaps be best summarised as "a mixture of suspicion, admiration and anxiety."<sup>44</sup>

The idea of competing with Singapore was not new. In October 1968, days after Singapore executed two Indonesian marines, the Indonesian government announced it would begin curtailing Indonesia's Singapore trade, as well as new measures to end smuggling, in order to minimise the benefits Singapore might derive from economic development in Indonesia.<sup>45</sup>

Smuggling was of major concern to the government. The Riau Islands adjacent to Singapore had, since colonial times, been very much under the influence of the

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<sup>41</sup>Kawin Wilairat ; "Singapore's foreign policy in the 1970s : The reconciliation of global and regional interests" , South East Asian Affairs 1974, (ISEAS 1974), p 294.

<sup>42</sup>Dick Wilson ; The Future Role of Singapore (Oxford University Press, London 1972), p 92. Far Eastern Economic Review, 11 November 1972.

<sup>43</sup>Interview with Mohammad Sadli, 22 July 1994. Interview with Dr Sanger, 20 November 1994.

<sup>44</sup>From an article by Max Karundeng which appeared in Sinar Harapan in January 1970, quoted in Dick Wilson ; The Future Role of Singapore (Oxford University Press, London 1972), p 46.

<sup>45</sup>Justus M. van der Kroef ; Indonesia After Sukarno (University of British Columbia Press, Vancouver 1971), p 174.

Singapore dollar, which circulated side-by-side with the rupiah. Whilst much of the trade was traditional and for barter, many 'traders' had influential backers.<sup>46</sup> In 1969 it was estimated that smuggling and illegal trade cost Indonesia about US\$50 million yearly in export taxes, equal to the expected budget deficit, and more in import duties, in addition to damaging Indonesia's own commercial and industrial activities.<sup>47</sup> Obviously reducing Singaporean commerce or halting smuggling was easier said than done, but the feelings, perhaps reminiscent of President Sukarno's *Konfrontasi*, continued to linger. It was of course also difficult to see how Pertamina's plans could reduce Singapore's importance in the oil industry.

In essence it was the nationalists, led by Pertamina, who were wanting to compete with Singapore, and for most Indonesians it was simply believed or presumed that Batam Island was to be developed as a competitor to Singapore.<sup>48</sup> Many, in fact, asked one of history's imponderables - had the Dutch not occupied the Riau Archipelago in 1819, Stamford Raffles might have settled Batam rather than Singapore. It could generally not be admitted openly, but Indonesia cherished the ambition to acquire an instrument capable of reducing its economic dependence on Singapore. Mochtar Lubis, editor of the Jakarta newspaper, *Indonesia Raya*, declared that,

Singapore must be stopped from remaining an island of prosperity for itself, siphoning riches and fortunes from all the countries around her.<sup>49</sup>

Those in government circles simply stressed that it was not a hostile act but simply healthy competition with Singapore.<sup>50</sup> Some even saw Singapore as playing a helpful, even necessary role, in Indonesia's development by providing services which Indonesia could not. Chairman of the Foreign Investment Coordinating Board, Soehoed, predicted that "Singapore could become a good source of technology and finance for Indonesia", through complementary economic activity.<sup>51</sup> Indonesian politician, Soebchan, described Singapore in 1970 as,

a great communication centre that the region can benefit from...It is not a question of jealousy so much as seeing Singapore as an economic asset to the region.<sup>52</sup>

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<sup>46</sup>Confidential Interview with one-time resident, 21 November 1994. Dick Wilson ; *The Future Role of Singapore* (Oxford University Press, London 1972), p 44.

<sup>47</sup>Justus M. van der Kroef ; *Indonesia After Sukarno* (University of British Columbia Press, Vancouver 1971), p 174.

<sup>48</sup>Interview with former minister, Emil Salim, 18 August 1994. Interview with former Pertamina executive, Trisulo, 27 October 1994.

<sup>49</sup>Dick Wilson ; *The Future Role of Singapore* (Oxford University Press, London 1972), pp 45-46.

<sup>50</sup>Interview with Mohammad Sadli, 22 July 1994.

<sup>51</sup>Straits Times, 6 November 1971 in Dick Wilson ; *The Future Role of Singapore* (Oxford University Press, London 1972), p 46.

<sup>52</sup>*Straits Times*, 23 November 1970.

Ibnu Sutowo was on record as saying that the development of Batam Island was not, and need not be, antagonistically competitive with Singapore, a position he held unwaveringly in public.<sup>53</sup> Whilst the idea of competing with Singapore was in the back of their minds, those working on the Batam Island project avoided stating so outright, since Batam relied on Singapore's transshipment facilities.<sup>54</sup> For Ibnu Sutowo, it was Batam Island's location on the Malacca Straits, and proximity to Singapore, that gave the island its *raison d'etre*. Batam Island could take advantage of Singapore's business facilities and infrastructure, would be geared to supplying the Singapore market, and could exploit any spillover of Singaporean industry or international demand for Singapore's tourism facilities.<sup>55</sup>

Singapore was very apprehensive about the political situation in Indonesia at the time, and it was also wary of the development of Batam Island, for in some ways its development could be seen to be counteracting Singapore.<sup>56</sup> When the development of Batam Island officially began, Jakarta's plan was seen as a hostile act in Singapore. Singapore was disposed to take Batam Island's potential seriously, since work on Batam was designed precisely to take work away from Singapore. Yet whilst Singapore looked at the plans with certain misgivings, the development of Batam Island was never perceived as a threat, particularly as it relied on Singapore's transshipment facilities.

Singapore's Foreign Minister, S.Rajaratnam, remarked at the time that Singapore would benefit from Indonesia's plans to develop Batam Island, and believed that Batam Island was not a threat to Singapore.<sup>57</sup> Singapore was unlikely to suffer, at least in the near future, and Indonesians working on the Batam Island Project continued to stress that its development would create activity for Singapore.<sup>58</sup> Indeed it was hoped that Singapore would be able to help speed up the development of Batam Island. On presenting his credentials in July 1970, incoming Singapore Ambassador Lee Khoon Choy, was told by President Soeharto that he was "glad that there would be cooperation between Singapore and Indonesia to make the [Batam] project a success."<sup>59</sup> Yet, when it came to offers for Singapore to invest in Batam Island, there was little interest, for the simple reason that Singapore needed to "help itself first".<sup>60</sup>

<sup>53</sup>G.G.Thomson ; "The Politics of Singapore's Energy Needs", *Petroleum News*, December 1972, pp 2-7.

<sup>54</sup>Interview with former Secretary-General of Oil and Gas, Wijarso, 3 November 1994.

<sup>55</sup>Interview with Ibnu Sutowo, 23 August 1994.

<sup>56</sup>Interview with assistant to former Foreign Minister Adam Malik, Adhayatman, 26 October 1994.

<sup>57</sup>*Straits Times*, 14 September 1972. Interview with former Singapore Foreign Minister, S.Rajaratnam, 28 September 1994.

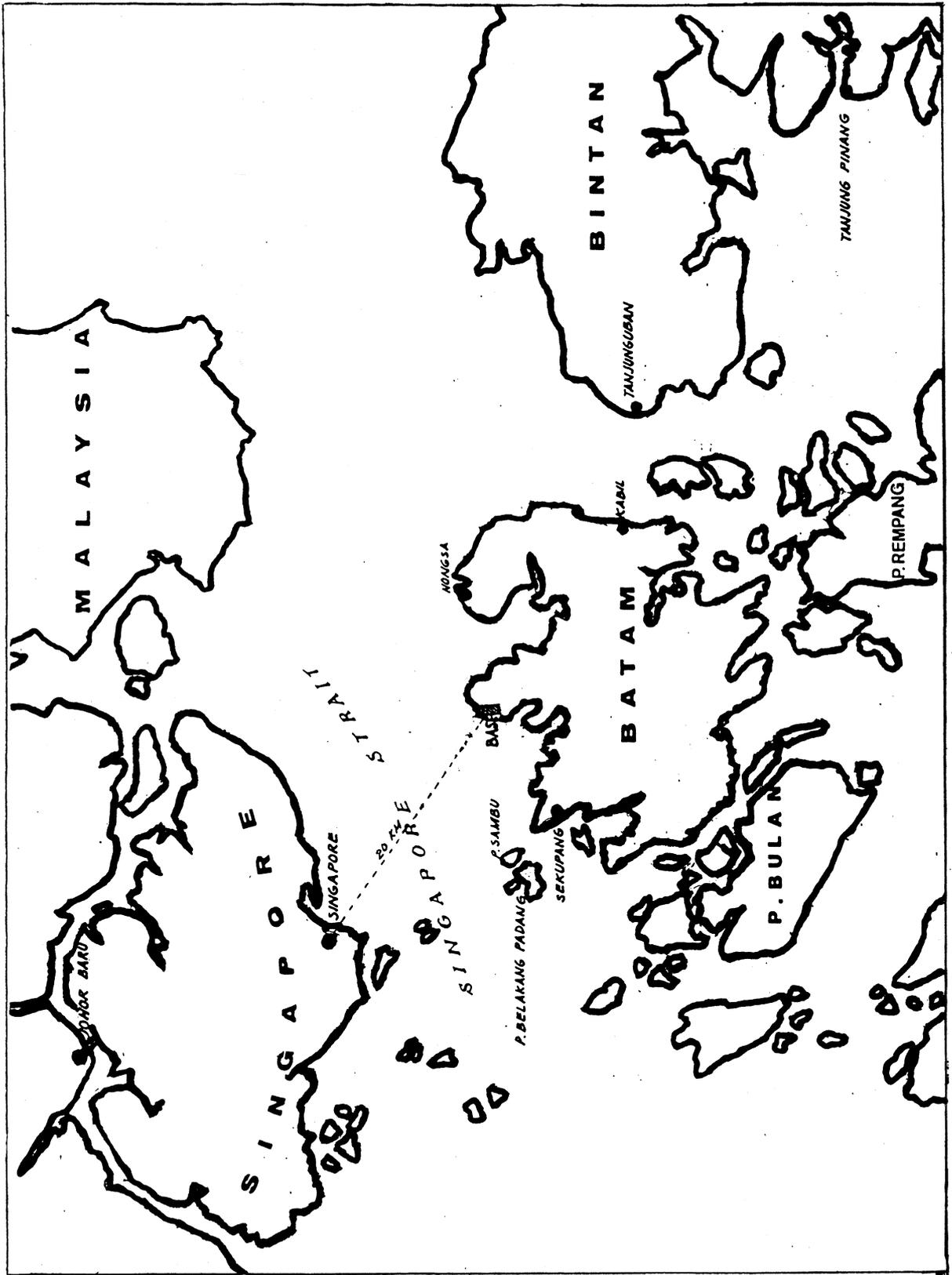
<sup>58</sup>*Singapore Economic Bulletin*, 31 August 1971, p 39.

<sup>59</sup>Lee Khoon Choy ; *An Ambassador's Journey* (Times International, Singapore 1983), p 190.

<sup>60</sup>Interview with former Singapore minister, Dr Goh Keng Swee, 29 September 1994. Ibnu Sutowo held several discussions with Dr Goh Keng Swee about the possibility of Singaporean involvement in Batam. No agreement was reached apparently because Lee Kuan Yew wanted government support in addition to that of the Head of Pertamina. Interview with Martalogawa, 2 August 1994. Interview with former Pertamina Head of Public Relations, Marah Joenoes, 7 November 1994. Indonesian Minister Frans Seda proposed to Dr Goh Keng Swee in June 1970 to use

## Map 3.1

## Batam Base



Batam Island as a site for an industrial estate. Dr Goh Keng Swee was in favour but Prime Minister Lee Kuan Yew was not. Interview with Frans Seda, 22 August 1994.

Whatever the case, Indonesia's decision to develop Batam Island came at the lowest ebb in Singapore-Indonesia relations, which remained cool until 1973. Relations between Singapore and Indonesia during the mid to late-1960s were poor to say the least. *Konfrontasi*, during which time Indonesia had militarily threatened the new nation-state of Singapore, was effectively over in 1965 and officially in 1967. Diplomatic relations which had been officially established between Singapore and Indonesia in 1967, after official recognition in June 1966, soured dramatically in 1968 when Singapore executed two Indonesian marines caught carrying out intelligence work and placing bombs which killed civilians during *Konfrontasi*. The fact that this was done in the face of a plea for clemency from President Soeharto had apparently caused great insult.

During the late 1960s and early 1970s, bilateral relations between Singapore and Indonesia were to be characterised by mutual suspicions and considerable misunderstandings, particularly with regards to smuggling and Singapore's refusal to publish export-import statistics with Indonesia, despite periodic statements that all was well. Indonesia-Singapore relations were to shift from hostility to friendliness, but it was to take several years before Singapore Prime Minister, Lee Kuan Yew, and Soeharto were to meet.<sup>61</sup>

### **Pertamina and 'Batam Base'**

Interest in, and development of, Batam Island grew steadily following Pertamina and Ingram's decision to create an offshore logistics and oil services base. A number of foreign companies entering the Indonesian market soon followed and established operations at the newly named 'Batam Base'. (See Map 3.1) Encouraged by the growing interest, as well as its own expansion, Pertamina began work on its own base on Batam.

#### **The development of Batam Base**

President Soeharto, together with a number of Ministers visited Batam Island on 12 May 1971, to officially inaugurate 'Batam Base'.<sup>62</sup> Reports were apparently mixed, but there was little doubt that Batam Base was taking shape, nor that Batam Island was

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<sup>61</sup>Interview with former Singapore Ambassador to Indonesia, Lee Khoon Choy, 11 October 1994. A good description of that period of diplomacy is in Lee Khoon Choy ; *An Ambassador's Journey* (Times International, Singapore 1983), pp 187-263.

<sup>62</sup>*Singapore Economic Bulletin*, 31 August 1971, p 39. *Pertamina : Laporan Tahunan 1971* (Pertamina, Jakarta, 1972). Another visitor was Minister of Manpower, Laksdya Mursalin, who observed the labour situation in February 1971. *Warta Pertamina*, Maret 1971 (No.10 Th.V). *Pertamina : Laporan Tahunan 1970* (Pertamina, Jakarta, 1972). Ten members of the DPR-GR Commission on industry and mining made a four day observation tour in July 1971. *Pertamina : Laporan Tahunan 1971* (Pertamina, Jakarta, 1972).

appropriate as a logistics base.<sup>63</sup> It was strategically placed close to the considerable offshore oil exploration and drilling in the surrounding seas, it had sufficient fresh water and ample land, necessary infrastructure such as a natural harbour, and important facilities like telecommunications, banking and government services. It also had attracted five foreign and two domestic companies in addition to Pertamina. (See Table 3.1).

Considering the fact that the development of Batam Island had already exceeded its brief as a logistics base, Presidential Decree no.74 1971 was issued on 26 October 1971, replacing the earlier one. The Decree designated the whole Batu Ampar area, including Batam Base and Jodoh, an Industrial Estate with the status of private entrepot.

**Table 3.1**

**Private Companies on Batam Island  
(as at 31 December 1971)<sup>64</sup>**

<b>Foreign Companies</b>		
PT Ingram Contractors Indonesia Ingram Corporation - USA	USA	Offshore Steel Structure Construction
PT Dresser Magcobar Indonesia Dresser Industries Inc - USA	USA	Drilling Mud Production
Instube USA	USA	Storage
Ednasa Robin Shipyard Robin Lo - Singapore	Singapore	Building Contractor
Ednasa Robin Dredging Robin Lo - Singapore	Singapore	Dredging Contractor
<b>Domestic Companies</b>		
PT Kurnia Dwi Putra Ibrahim Adjie		Contractor
Double Bell Ranch Ibnu Sutowo		Cattle Breeding

<sup>63</sup>It was reported publicly that the President was pleased with the activities. Warta Pertamina, Juni 1971 (No.1 Th.VI). Privately, however, it was noted that President Soeharto and his Ministers were generally disappointed because there was so little there. Interview with Martalogawa, 2 August 1994.

<sup>64</sup>Badan Pelaksana Otorita Pengembangan Daerah Industri Pulau Batam ; Laporan Tahunan 1974 , Lampiran III & VIII. Warta Pertamina , Juni 1971 (No.1 Th.VI). Excludes Pertamina, government offices and banks.

To coordinate activities and development, the BIEA (Badan Pimpinan Daerah Industri Batam - Batam Industrial Estate Authority) was created, consisting of a Chairman and Deputy Chairman appointed by and directly responsible to the President, as well as a Committee headed by a Secretary chosen by the Chairman of the Authority. The Authority's principle tasks were to plan and develop infrastructure and industrial projects in the industrial estate according to a masterplan sanctioned by the President, to receive and consider applications to invest in the industrial estate, and to ensure that development followed plans. In addition, the Authority was authorised to establish contact with all government agencies at both central and local levels, and coordinate the activities of those agencies within the industrial estate.<sup>65</sup>

Ibnu Sutowo was appointed Chairman of the BIEA, and Maj-Gen Teuku Hamzah, former Commander of the Aceh Territorial Command, as Vice-Chairman.<sup>66</sup> Dr Elrich Sanger, concurrently Head of the Legal/Foreign Marketing Board of Pertamina, was appointed BIEA Committee Secretary.<sup>67</sup> The Committee, based in Jakarta, met weekly, and was essentially in charge of running day-to-day operations, and attracting investors to the Batam Industrial Estate.<sup>68</sup> The Committee also made use of Pertamina's Liaison Officer in Singapore.<sup>69</sup> Whilst the Decree did not specify where funding would come from, all money was in fact to come from Pertamina. According to Dr Sanger,

We did not need much money from businesses or from the government because we had our own money.<sup>70</sup>

On Batam Island, PT Ingram Contractors Indonesia was developing Batu Ampar into an offshore oil supply and construction base, and had already finished 20% of the work by mid-1971. According to plans, 'Batam Base' was to include a harbour, workshops, warehouses and open storage, a dam for water supply, and the preparation of land for in-coming oil service and supply companies. By the end of 1971 Ingram had cut a 650m-long channel and a harbour in the surrounding coral reef, cleared about 250 acres, finished the water reservoir, and built warehouses, a medical centre, a 24-room

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<sup>65</sup>The location of the industrial estate is indicated in a map attached to the Decree. Keputusan Presiden No.74 1971 (26 October 1971). The BIEA essentially replaced Pertamina's Batam Island Development Board which had been created in 1970 and was made up of General Hartawan as Chairman, Martalogawa as Vice-Chairman, Dr Sanger, a Navy Colonel, and a representative from both the immigration and customs ministries. Because of the very early relationship with Singapore, whereby all people and goods on Batam Island arrived via Singapore, immigration and customs were involved right from the beginning. Interview with Martalogawa, 2 August 1994.

<sup>66</sup>Suara Pembaruan, 23 October 1987.

<sup>67</sup>The members of the Secretariat were Manus S.H., Ir Pedrico and Ir Astoto. Warta Pertamina, September 1972 (No.4 Th.VII).

<sup>68</sup>Interview with Dr Sanger, 20 November 1994.

<sup>69</sup>Pertamina : Indonesian State Oil Enterprise (2nd edition), Pertamina 1974, p 145. The Liaison Office in Singapore was created on 21 January 1970, and headed by Let-Kol PM Achmad. Warta Pertamina, Januari 1970 (No.8 Th.IV).

<sup>70</sup>Interview with Dr Sanger, 20 November 1994.

guesthouse and 9 dormitories for workers.<sup>71</sup> High on priorities was a landing strip for Fokker Friendships, for easier contact with Jakarta, as Batam Island at that time could only be reached by ferry from Singapore in one hour, or by speedboat from Tanjung Pinang, which was serviced by air, in three hours.<sup>72</sup>

In addition to developing Batam Base, Ingram was producing offshore drilling platforms at Batu Ampar. Ingram had invested US\$3.2m by the end of 1970, with a budget of US\$1m for 1971, and employed 330 people including 60 foreigners. Before the end of 1971, Ingram had already produced offshore platforms for Sinclair and IAPCO's (Independent Indonesian-American Petroleum Company) new oilfields in the Java Sea, the first of which began operations in December 1970, and an offshore jacket structure and was in the middle of building a two-storey dock for Shell Brunei.<sup>73</sup>

On the land prepared by Ingram, PT Dresser Magcobar Indonesia, owned by American company Dresser Industries Inc, was building a barite factory with a 60,000-ton per year capacity which would make Southeast Asia self-sufficient in drilling muds for oil mining. Operating under a production-sharing contract, the factory opened on 15 October 1971. By the end of 1971 it had already invested US\$2.8m of a planned US\$3.5m. The barite factory meant that Indonesia could save in foreign exchange, for at the time Indonesia imported 35,000-40,000 tons of barite a year from Japan, Australia and the United States at US\$75-80 a ton. Initially raw materials were being imported from Thailand while the Department of Mining searched for barite deposits in Indonesia.<sup>74</sup> Also on site was American company, Instube, in a joint venture with Pertamina that, by July 1971, had a 10,000-ton stockpile of steel pipes for construction estimated to be worth US\$500,000, making it the biggest steel-yard in Southeast Asia.<sup>75</sup>

Whilst there were reports that not many foreign oil companies paid much attention to Batam Island, and that "some even raised their eyebrows", the BIEA Committee, as well as Pertamina's DKKI, were having success in attracting interest in Batam Island.<sup>76</sup> Whilst there were suggestions that foreign oil companies operating in Indonesia would be obliged to use the facilities at Batam Base as they became

<sup>71</sup>Prior to the reservoir, water was imported from Singapore. Warta Pertamina, Juni 1971 (No.1 Th.VI). Singapore Economic Bulletin, 31 August 1971, p 39. Kompas, 28 September 1971.

<sup>72</sup>Warta Pertamina, Juni 1971 (No.1 Th.VI). Singapore Economic Bulletin, 31 August 1971, p 39. Kompas, 28 September 1971.

<sup>73</sup>Warta Pertamina, Juni 1971 (No.1 Th.VI). Warta Pertamina, Januari-Februari 1971 (No.8-9 Th.V). Kompas, 28 September 1971. Quarterly Economic Review, Indonesia, No.3, pp 5-6. Singapore Economic Bulletin, 31 August 1971, p 39.

<sup>74</sup>Warta Pertamina, Juni 1971 (No.1 Th.VI). Warta Pertamina, November-Desember 1971 (No.6-7 Th.VI). Pertamina: Laporan Tahunan 1971 (Pertamina, Jakarta, 1972). Kompas, 28 September 1971. Singapore Economic Bulletin, 31 August 1971, p 39. Singapore Economic Bulletin, 31 October 1971, p 45. For details on PT Dresser Magcobar Indonesia, see BNPT No.304-1975.

<sup>75</sup>Warta Pertamina, Juni 1971 (No.1 Th.VI). Singapore Economic Bulletin, 31 August 1971, p 39.

<sup>76</sup>Singapore Economic Bulletin, 31 May 1972, p 39. Straits Times, 19 May 1972.

available<sup>77</sup>, Batam Base had attracted the interest of some 18 foreign companies producing oil or serving the oil sector, as well as many domestic businesses, reported to be interested in either operating from or using the Batam Base facilities. Already potential investors were wondering if Batam Island would become a free port because many goods imported were only for re-export.<sup>78</sup>

Among the other foreign companies reported to be interested in Batam Base were : Avery Lawrence, which was to construct open and closed storage facilities; Chicago Bridge and Iron Overseas, which was to store tank construction equipment; Dimet, which was to build warehouses for paints and zinc compounds; Price International, which intended to construct a coating yard; Vickers Ruwolt, which intended to build a large covered machine shop; O'Neil Industries, which was to construct buildings; Milchem, which intended to store oilfield chemicals; Phillips Petroleum, Rucker Petroleum Service and Vetco which intended to store oil field tools; and Interagencies, a food company looking to supply food to the developing region and ships involved in the oil search.<sup>79</sup>

An Indonesian bank, Bank Dagang Negara, opened a branch at Sekupang with full-fledged status on 27 July 1971, to service the growing number of investors and workers.<sup>80</sup> Meanwhile, Batam Base had attracted the attention of local people and newcomers - the population of the nearby town of Sungai Jodoh had increased from 300 in 1968 to 1,000 in 1971 and 2,000 by 1972 - nearly one quarter of Batam Island's population which according to the 1971 census numbered 8,000.<sup>81</sup>

While Batu Ampar was being developed as an industrial area for foreign investors, Pertamina began developing Sekupang as an administrative and business centre, as well as for its own logistics purposes. By the end of 1971, Pertamina's base camp was near completion, with the first stage consisting of a power station, telecommunications centre and housing for employees.<sup>82</sup>

Pertamina increasingly saw Batam Island as a natural staging point for oil-related activities, and quickly assumed responsibility for developing the island and providing the necessary funds for basic infrastructure and suitable support facilities and services.

<sup>77</sup>Peter Polomka ; "Indonesia's future and Southeast Asia" Adelphi Paper No.104 (Spring 1974), p 10.

<sup>78</sup>Kompas, 28 September 1971.

<sup>79</sup>Warta Pertamina, Juni 1971 (No.1 Th.VI). Quarterly Economic Review, Indonesia, No.3, pp 5-6. Singapore Economic Bulletin, 31 August 1971, p 39. Far Eastern Economic Review, 25 December 1971. Kompas, 28 September 1971.

<sup>80</sup>Warta Pertamina, August 1971 (No.3 Th.VI).

<sup>81</sup>Batam Island Investment Guide, (Delta Orient Private Ltd, Singapore 1975), pp16-17.

<sup>82</sup>Warta Pertamina, Juni 1971 (No.1 Th.VI). Singapore Economic Bulletin, 31 August 1971, p 39. Batam Telecom was to be linked with Jakarta, Singapore, Sambu, Tanjung Uban, Natuna, Pladju and Dumai.

Batam Island soon became the principal focus of the oil industry and its development became increasingly associated with Pertamina and, as a result, with its President-Director, Ibnu Sutowo.

### **Pertamina - A National Development Company**

Both historically, and in style, Pertamina was a phenomenon of the New Order. Until the coup of October 1965, Ibnu Sutowo headed just one of the three national oil companies operating in Indonesia. Sustained lobbying by Ibnu, who had given both material and political support to pro-Soeharto forces in the immediate aftermath of the coup, ended in 1967 with the emergence of a single oil company, Pertamina, under Ibnu's direction.<sup>83</sup>

Oil was the biggest single contributing sector of the Indonesian economy, and as oil prices began to rise, particularly after 1973, Ibnu Sutowo saw an opportunity for Pertamina to grow fast, for as overall production rose, the quantities of oil due to Pertamina from the production-sharing arrangements with foreign oil companies far exceeded domestic demand.<sup>84</sup> This increased oil was able to be used both directly, and as security, to launch Pertamina on the road to becoming an integrated oil company engaged in supporting industries, petrochemicals, refining, tankers and international marketing. The development of Batam Island fitted neatly into this plan, and played an important role in Pertamina's overall aims for the Indonesian oil industry.<sup>85</sup>

However, Pertamina not only controlled the nation's vast petroleum resources but had become the spearhead of an ambitious national development drive by Soeharto's New Order government. By 1974, the company had an estimated \$1.7b in annual sales, \$3.7b in assets and 40,000 employees.<sup>86</sup> Pertamina's annual budget was US\$1,900m or, to put it into perspective, half that of the Indonesian government.<sup>87</sup> To a large extent, Pertamina was semi-political, in that it took on a social welfare role. Ibnu Sutowo boasted that US\$500,000 of Pertamina funds a year was devoted to aid purposes - the building of mosques, roads, television stations, etc.<sup>88</sup> As its interests spread beyond oil, Pertamina became a conglomerate, and a 'national development' company.<sup>89</sup>

<sup>83</sup>For background on the growth of Pertamina, see Anderson G.Bartlett et.al. ; Pertamina : Indonesian National Oil (Amerasia Ltd, Tulsa 1972). See also Anthony Goldstone ; "What was the Pertamina crisis?" Southeast Asian Affairs 1977 (ISEAS 1977), p 123.

<sup>84</sup>Oil industry development was an integral part of total national development, for in 1972-74 oil accounted for half of total commodity exports and about 74% in 1974-75. Sevinc Carlson ; Indonesia's Oil (Westview Press, Boulder 1977), p 53.

<sup>85</sup>Interview with Wijarso, 3 November 1994.

<sup>86</sup>Seth Lipsky (ed) ; "The Billion Dollar Bubble", Asian Wall Street Journal, 1 January 1978, and in The Billion Dollar Bubble (Dow Jones, Hong Kong 1978).

<sup>87</sup>The Pertamina Affair : As seen by 'Euromoney' for June 1975' in Singapore Economic Bulletin, July 1975, p 17.

<sup>88</sup>Time, 31 August 1970.

<sup>89</sup>Anthony Goldstone ; "What was the Pertamina crisis?" Southeast Asian Affairs 1977 (ISEAS 1977), p 125.

Ibnu Sutowo gave his concept of a national development company a very specific meaning, where oil would be 'the main force to accelerate the development of the country.'<sup>90</sup> Ibnu offered a quicker route to national development than that offered by the technocrats. Pertamina would place itself at the vanguard of development, and its growth would advance the whole economy.<sup>91</sup> According to Ibnu Sutowo,

Because the oil industry is large and it needs many services, I think the oil industry should be and could be very valuable in the development of the country. It can even be the main force to accelerate the development of the country.....Development has to start with development of the people. Very often we have something very big, very good, very modern which will create a lot of production and a lot of income for the government, without any effect in the development of the people. I think this kind of profit, this kind of investment is very well for the Ministry of Finance. But it is not very helpful for bringing Indonesia closer to the technical age.....As I said before, the best way to make the oil industry one of the accelerators in the development of Indonesia is to create as many services as possible in Indonesia, and using that opportunity to train as many Indonesians as possible in the shortest time.<sup>92</sup>

To an impressive degree, Pertamina was Ibnu Sutowo. Ibnu Sutowo himself conceded that, "Pertamina and Sutowo are very difficult to separate from each other."<sup>93</sup> Ibnu was one of the most effective men in a nation embalmed in red tape, operating in a freewheeling fashion largely beyond government control, running Pertamina as a personal fiefdom almost as a 'state within a state', and setting his own rules as he went along, relentlessly diversifying and expanding. Sutowo purposely sidestepped the government bureaucracy, which questioned his methods, by reporting directly to President Soeharto. Sutowo seemed to have a hand in every major project in which things were getting done, but only Sutowo knew which of his operations made a profit, yet always insisting that profits were less important than developing the skills the country required.<sup>94</sup> According to Ibnu,

If we were just an oil company trying to make a profit for our shareholders, Pertamina would not be doing a lot of the things we are doing. However, our shareholders are all the people of Indonesia, and we are a development company for the nation.<sup>95</sup>

<sup>90</sup>Petroleum News, October 1973, p 28.

<sup>91</sup>Anthony Goldstone ; "What was the Pertamina crisis?" , Southeast Asian Affairs 1977 (ISEAS 1977), p 125.

<sup>92</sup>Ibnu Sutowo ; Development has to start with development of people , address to Indonesian Petroleum Association, Jakarta, 23 June 1972. For other examples see also Minjak untuk Kemakmuran Rakyat, (Dinas Humas Pertamina 1970) and Ibnu Sutowo ; Prospects of Oil for our national prosperity, address to Science Education Teaching Institute, Bandung, 14 March 1972.

<sup>93</sup>Time, 31 August 1970.

<sup>94</sup>Louis Kraar ; "Oil and Nationalism Mix Beautifully in Indonesia" Fortune, July 1973.

<sup>95</sup>Ruth Sheldon Knowles ; Indonesia Today : The Nation that Helps Itself (Nash Publishing, Los Angeles 1973), p 118.

Ibnu Sutowo and Pertamina had their detractors, and their supporters. Outside the government, Ibnu Sutowo's critics, primarily Mochtar Lubis' newspaper *Indonesia Raya*, charged that Pertamina was primarily a boondoggle for Sutowo and army officers, because it provided an important source of funds for the military.<sup>96</sup> One reason why Pertamina affairs were clouded in secrecy, balance sheets never published and profits never announced, was in order to disguise its role as the "most important source of funds for the army during the early phase of the New Order..."<sup>97</sup>

Yet, criticism of Pertamina from outside the government was inhibited by the belief that many of the projects undertaken, though not subject to cost-accounting or feasibility studies, were fundamentally worthwhile. At the heart of these debates about Pertamina's role was a conflict between Pertamina's need for autonomy and the desirability of public accountability.

In government circles, the technocrats, beginning 1970-71, and perhaps under pressure from Indonesia's foreign creditors, became concerned with Pertamina's foreign borrowings for projects that would take longer to build than the loans would run.<sup>98</sup> Their efforts to promote greater controls on state finances brought them in direct conflict with Pertamina, which sought to maintain its authority. In return, Pertamina and Ibnu Sutowo's allies felt the technocrats were a drag on development, alleging subservience to the IMF (International Monetary Fund).<sup>99</sup>

The technocrats' prominent say in policy formulation had won and maintained the confidence of foreign governments, financial institutions and investors, but their influence weakened where military interests and Pertamina were involved. The technocrats were initially not inclined to tamper with Ibnu Sutowo and Pertamina because of its capacity to attract foreign investment capital and generate foreign exchange that was so badly needed in the early years of the New Order. The technocrats perhaps also regarded the Indonesian part of the oil sector as one of the military-run sectors of the economy, effectively beyond their jurisdiction but which would eventually be brought under control.

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<sup>96</sup>Khong Cho Oon ; The Politics of Oil in Indonesia : Foreign Company-Host Government Relations (Cambridge University Press, Cambridge 1986), p 166. See also Harold Crouch ; The Army and Politics in Indonesia (Cornell University, 1978), Chapter 11.

<sup>97</sup>Harold Crouch ; The Army and Politics in Indonesia, p 275. It was perhaps for that reason that nothing came of the recommendations of the Commission of Four which reported on corruption in Indonesia. See J.A.C.Mackie "The Report of the Commission of Four on Corruption" Bulletin of Indonesian Economic Studies, November 1970 (Vol.VI No.3).

<sup>98</sup>Seth Lipsky ; "The Billion Dollar Bubble", Asian Wall Street Journal, 1 January 1978.

<sup>99</sup>Interview with Ibnu Sutowo, 23 August 1994.

In the case of oil, complete control was in the hands of Ibnu Sutowo and he exercised determining influence on government policy. While formally responsible to the Minister of Mines, Ibnu Sutowo insisted on complete autonomy.<sup>100</sup> In practice, Ibnu's line of responsibility went over the heads of ministers and directly to Soeharto. Ibnu Sutowo had little cooperation with other ministers, particularly the technocrats - he didn't need it because of his access to Soeharto. Bappenas (Badan Perancang Pembangunan Nasional or National Planning Board), a technocratic stronghold led by Widjojo and Sumarlin, did not approve of Pertamina's activities because it did not make plans according to the formula used by the technocrats.<sup>101</sup> Other economic ministers, especially Ali Wardhana, Radius Prawiro, Sumitro and Emil Salim, were also critical.<sup>102</sup> Whilst Soeharto was attracted to the clarity of the technocrat's economic analysis and planning, he also admired how Ibnu got things done. Essentially the President looked for a balance and Ibnu was seen as a balance to the Western-trained economists - he was seen as a nationalist by comparison.

In the case of Batam Island, Ibnu Sutowo invariably had his own way due to his close relationship with the President, and for the most part Batam Island was not a major issue between Ibnu and the technocrats, at least initially. In the end it was Soeharto who made the decisions and decided policy if there was conflict.<sup>103</sup> The development of Batam Island was seen publicly as yet another *tugas*, or Presidential assignment for Ibnu Sutowo.<sup>104</sup>

As an indication of the style of government policy-making at the time, the power of both Ibnu Sutowo and Pertamina, and the confidence shown by the President in Ibnu, the Presidential Decrees of 1970 and 1971 which concerned Batam Island did not involve debate or discussion either in cabinet or in public. BIEA Committee Secretary, Dr Sanger, who wrote the Presidential Decrees, described the process as follows :

If Ibnu Sutowo as President-Director of Pertamina and I as his Assistant had already agreed on [the Decree], there was no further discussion. It would be agreed to straight away by [the President].<sup>105</sup>

Oil and nationalism were a volatile mixture and at the time, both economically and politically, Pertamina was a key institution of the New Order. Pertamina was very important politically - not only was its brand of nationalism very appealing but it

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<sup>100</sup> Harold Crouch ; The Army and Politics in Indonesia (Cornell University, 1978), pp 243, 276.

<sup>101</sup> Interview with Ibnu Sutowo, 23 August 1994.

<sup>102</sup> Interview with former minister, Frans Seda, 22 August 1994.

<sup>103</sup> Interview with former minister, Mohammed Sadli, 22 July 1994. Interview with former minister, Radius Prawiro, 29 July 1994.

<sup>104</sup> Warta Pertamina, November 1970 (No.6 Th.V).

<sup>105</sup> Interview with Dr Sanger, 20 November 1994.

brought community programs to development projects by providing benefits to local communities often outside the development programs of the technocrats.<sup>106</sup> Economically, Ibnu Sutowo showed what Indonesia could do - in many ways it was thanks to Pertamina's successes that Indonesia emerged from near bankruptcy to become a major supplier of petroleum to the world. Yet, despite Pertamina's economic importance and numerous successes, Sutowo alone could not decide all of Indonesia's future priorities. Indeed, there was room for improving management methods, improving its debt structure and producing public accounts like other major corporations.<sup>107</sup>

Pertamina was clearly shaped as much by Sutowo's boldness and personal enthusiasm as by Indonesia's development needs. Ibnu Sutowo himself believed very strongly that all Indonesians would benefit from the demonstration effect created by his company, and followed the policy of using Indonesia's oil revenues to modernise and develop other high-technology industries. Ibnu was convinced that modern technology was the key to Indonesian development :

According to me, 'the way to accelerate development is to accelerate acquisition and development of technology'.<sup>108</sup>

Pertamina spent heavily on modern, technologically-advanced industries and skills, with the expectation that they would filter in to other economic sectors. The transfer of technology, and the development of Indonesian skills, was considered by some as the greatest contribution of oil to Indonesia's development.<sup>109</sup> Ibnu began elaborating his 'development strategy' by 1973 to explain and legitimate Pertamina's growth. It ascribed technologically advanced industries such as oil a leading role in Indonesia's economic development, and thus was directly opposed to the technocrats' focus on agriculture, rural infrastructure and small labour-intensive industry.

In addition, Ibnu Sutowo wanted to ensure that Indonesia received maximum benefit from the development of its natural resources, and so undertook to supply the services required to support the search for oil. Ibnu said,

If we want the oil business to increase the state income in a direct way, we must attempt to ensure that the money used for the development of oil resources is mostly spent in Indonesia. One of

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<sup>106</sup>Interview with Ibnu Sutowo, 23 August 1994.

<sup>107</sup>Louis Kraar ; "Oil and Nationalism Mix Beautifully in Indonesia" *Fortune*, July 1973.

<sup>108</sup>Ibnu Sutowo ; *Strategi Minyak dan Gas Bumi dan Transfer of Technology* (Pertamina, Jakarta 1975), p 26.

<sup>109</sup>Interview with former Pertamina executive, Gozali, 18 November 1994. Sevinc Carlson ; *Indonesia's Oil* (Westview Press, Boulder 1977), p 53.

Pertamina's objectives is to see that services needed for the exploitation, production, processing, as well as transportation of oil are mostly available in Indonesia.<sup>110</sup>

One of the conditions that Pertamina required of its foreign contractors was that they should be based in Indonesia, while at the same time it was Pertamina's objective to see that services needed for the exploitation, production, processing, and transportation of oil, as well as skilled personnel, were largely available in Indonesia.<sup>111</sup> Ibnu Sutowo certainly understood the requirements. These services included office space, housing, land, refining, air and sea transportation, communications, training, and other services such as hospitals. Pertamina launched a multi-million dollar drive to lure foreign investors in the oil field to base their operations in Indonesia instead of Singapore, and these efforts to displace Singapore as the base for oil exploration in the area included a US\$1.6m oil centre in central Jakarta, a multi-storey hospital, the logistics base on Batam Island and other facilities for foreign businessmen.<sup>112</sup>

Sutowo felt that Indonesia profited in several ways from this policy, and through continued expansion Pertamina became the dominant economic enterprise in Indonesia, even meriting a place in Fortune magazine's list of the world's two hundred largest companies.<sup>113</sup> By 1973 it had branched out from oil into refineries, liquefied natural gas, petrochemicals, fertiliser, oil tankers, steel, airlines, hotels, highways, insurance and even experimental farming.<sup>114</sup> Ibnu had considerable standing in the international business community and its operations appealed to an immense diversity of interests - bankers, suppliers, oil companies and foreign government officials. Minister for Mines, Mohammad Sadli, later said that the government agreed to the non-oil ventures,

...so as to take advantage of Pertamina's potential and the confidence that is held in Pertamina in the business world - especially the foreign business world - in order to attract overseas capital to Indonesia.<sup>115</sup>

Pertamina undertook many government projects on direct presidential orders, and without financial assistance often had to resort to loans, both to develop oil and to handle special assignments. President Soeharto reportedly told visiting US Vice-President Agnew in 1973 that the oil company undertook many government projects on

<sup>110</sup> Khong Cho Oon ; The Politics of Oil in Indonesia : Foreign Company-Host Government Relations (Cambridge University Press, Cambridge 1986), p 166.

<sup>111</sup> Interview with Wijarso, 3 November 1994.

<sup>112</sup> Many foreign businessmen engaged in various projects in Indonesia based their operations in Singapore because Jakarta could not offer modern business and recreation facilities. Singapore was reported to have set aside US\$100m in modern facilities for businessmen. Singapore Economic Bulletin, 31 October 1970, pp 34-5.

<sup>113</sup> Raja Segaran Arumugam ; "Indonesia : Internal developments and external outlook" Southeast Asian Affairs 1976, (ISEAS 1976), p 182.

<sup>114</sup> Seth Lipsky ; "The Billion Dollar Bubble" Asian Wall Street Journal, 1 January 1978.

<sup>115</sup> Sinar Harapan, 21-24 May 1975 in John Bresnan ; Managing Indonesia : The Modern Political Economy (Columbia University Press, New York 1993), p 175.

direct presidential orders and was not given a budget to finance them, maintaining that Pertamina had to borrow money, both to develop petroleum and to handle the special assignments.<sup>116</sup>

Whilst some of Pertamina's subsidiary activities, such as the Krakatau Steel complex, were undertaken at the specific request of President Soeharto, Sutowo's hand in the development of Batam Island was strong. Sutowo made the project very much his own and planned to shape Batam into Indonesia's Singapore. While Pertamina was to raise money for an enormous range of projects, the development of Batam Island into a giant industrial complex and a centre of Indonesia's petroleum activities was one of the largest, most ambitious, and certainly most grandiose project undertaken by Pertamina to diversify the Indonesian oil industry at the time.

Almost a mini-national development plan by itself, the emerging Batam Island scheme aimed at converting the scantily populated grassland island into the principal administrative, supply and trans-shipment centre for the entire South-east Asian oil industry, as well as into a major industrial and commercial centre. The ambitious long-term development plan was to call for oil refineries, power stations, supporting infrastructure, seven miles of wharfage, shipyards, oil-rig plants, a free-trade industrial zone, agricultural development and tourist amenities.<sup>117</sup>

### **The New Scheme for Batam**

On 28 April 1972, in Tokyo, Pertamina signed a protocol agreement forming a joint venture partnership with Nissho-Iwai Co. Ltd of Japan, and Pacific Bechtel Corporation of the USA, for the purpose of developing a Masterplan for the industrial development of Batam Island.<sup>118</sup> The Masterplan would cover oil refineries, metal fabricating plants, tourism, agriculture, an industrial free trade zone, and necessary infrastructure such as electricity, fresh water, harbour and port facilities and community facilities.<sup>119</sup>

The joint venture partnership was reportedly created at the initiative of Ibnu Sutowo and Pertamina, who envisaged a much-broader development of Batam.<sup>120</sup> The foreign partners - Nissho-Iwai, a major Japanese trading company with extensive interests in Indonesia and said to have a big influence on the Japanese government, and Pacific

<sup>116</sup> Louis Kraar ; "Oil and Nationalism Mix Beautifully in Indonesia" *Fortune*, July 1973.

<sup>117</sup> Donald W. Fryer & James C. Jackson ; *Indonesia* (Ernst Benn Ltd, London 1977), p 191. The idea for such an expansion of activities had most likely been around for some time. For example, the idea of a tanker terminal on Batam Island had been suggested in 1970. *Ekspres*, 7 November 1970.

<sup>118</sup> *Singapore Economic Bulletin*, 31 May 1972, p 39.

<sup>119</sup> *Batam Island Masterplan*, p 1-1.

<sup>120</sup> *The Asian*, 23-29 April 1972.

Bechtel, a worldwide engineering contractor which had been active in Indonesia for more than ten years - brought with them engineering experience and an interest in the projects envisaged in the Masterplan.<sup>121</sup>

For Pacific Bechtel, the infrastructure requirements and the types of industries desired on Batam, provided enormous opportunity for engineering contract work, as well as the immediate task of developing the Masterplan. For Nissho-Iwai, whose main interests were in the iron and steel sector, the oil refineries and metal fabricating plants on Batam offered an opportunity for new business, and it quickly set out to make a feasibility study for an oil refinery.<sup>122</sup>

It was, however, to become clear that Japan would be a major beneficiary of the new scheme for Batam Island. The fact that Japanese companies intended to be major investors, that the joint venture agreement was signed in Tokyo, and that the announcement of the scheme coincided with a huge loan from the Japanese government to Indonesia all pointed to significant Japanese influence.

#### **Japanese interest in Batam Island**

In early May 1972 President Soeharto visited Japan, returning with an agreement for US\$200m. in untied aid to be used for improvements to the Indonesian oil sector, in return for guaranteed supplies of oil through normal commercial channels and the provision of facilities necessary to service Japan with 58 million kilolitres of low-sulphur oil for a period of ten years.<sup>123</sup> The coinciding of the Batam Island Masterplan announcement with the President's visit led to speculation that the loan was intended, in part, to be used to help finance the Batam project.<sup>124</sup>

At least one source claimed that the credit was solely applied to Batam Island.<sup>125</sup> Yet, it is not clear whether the loan was to be used for Batam Island, let alone for the Indonesian oil industry, because no announcement was ever made about the projects or purposes for which the aid was to be used.<sup>126</sup> Certainly the Japanese loan was untied,

<sup>121</sup> The two foreign corporations had apparently offered themselves for the project because they considered the project to be a profitable one. Interview with Dr Sanger, 20 November 1994. Both had considerable access to the Indonesian government, including President Soeharto. Nissho-Iwai executives met with the President on 14 May 1973. Current Affairs Translations, May 1973 Bulletin. Senior Director of Bechtel, Steve Bechtel, met the President on 16 March 1974. Current Affairs Translations, March 1974 Bulletin.

<sup>122</sup> The Asian, 23-29 April 1972.

<sup>123</sup> Far Eastern Economic Review, 27 May 1972.

<sup>124</sup> Far Eastern Economic Review, 27 May 1972. H.W.Arndt ; "Survey of Recent Developments", Bulletin of Indonesian Economic Studies, July 1972 (Vol.VIII No.2), p 22.

<sup>125</sup> Alois Osterwalder ; "Japanese spheres of interest in South-East Asia" in Bernhard Dahm & Werner Draguhn (eds) Politics, Society and Economy in the ASEAN States (Otto Harrassowitz, Wiesbaden 1975), pp 256-57.

<sup>126</sup> On that point and for details of the 1972 Oil Loan, see Wayne Robinson ; The Politics of Japanese-Indonesian Energy Cooperation, with particular reference to the period 1972-76 (PhD Thesis, Monash University 1980), Ch.4, pp 140-203.

and it was inherent that at least part of it would be used for projects to contribute "to the development of the oil sector in Indonesia", but doubts about its application to the oil sector could be raised since the loan had been negotiated by the technocrats, and not by Ibnu Sutowo and Pertamina.<sup>127</sup> However, considering Japan's interest in Batam Island, and a World Bank Report which noted a tentative plan for the use of the loan, whereby some US\$10m would be used by Pertamina for "facilities for foreign oil contractors", it would be safe to presume that at least part of the loan was allocated to the Batam Island project.<sup>128</sup>

Interestingly, the Japanese government had embarked on a period of 'resource diplomacy' aimed at promoting good relations with oil-producing nations. Dependence on natural resource imports had compelled Japan to adopt a multilateral trade policy in order to spread the risks inherent in such dependence. As a result, resource trade occupied the attention of Japanese foreign economic policy-makers.<sup>129</sup> Typically, in exchange for oil supplies, Japan would offer technical and financial assistance in a variety of economic development projects, predicated on corporate participation. Whilst largely financed by the Japanese government, these operations would be conducted by Japanese multi-nationals. Japan's first energy white paper, published in 1973, emphasised cooperation with oil-producing nations.

Oil foreign policy must be developed on the basis of international cooperation...It will be necessary for Japan to actively cooperate in the economic development of the oil-producing countries, beginning with industrialisation, and to take on large-scale development projects as 'national projects' involving both government and the private sector. Growing out of this approach, in the future it will be necessary to establish both comprehensive and concrete policies in response to the specific situation in each producing country, beginning with the promotion of direct deals, or even further, joint management and investment enterprises in a mutually profitable form.<sup>130</sup>

Batam Island was to be one such 'development project', and of enormous importance to Japan's oil-related foreign policy. Essentially Japan's participation was recognition of Indonesia's long-term strategic importance to Japan as a source of raw materials and energy, and it also provided a number of important strategic and economic benefits for Japan.

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<sup>127</sup> Jean Aden Bush ; Oil and Politics in Indonesia. 1945 to 1980 (PhD Thesis, Cornell University 1988), p 365.

<sup>128</sup> International Bank for Reconstruction and Development ; Development Issues for Indonesia (December 1, 1972), Annex 5, pp 28-29.

<sup>129</sup> International Development Centre of Japan ; Study of Economic Development of Indonesia (March 1973), p 134. See also Frank Langdon ; "Japanese Policy Towards Southeast Asia" in Mark W. Zacher & R.Stephen Milne (eds) Conflict and Stability in Southeast Asia (Anchor Books, New York 1974), pp 327-354.

<sup>130</sup> Japan Petroleum Yearbook (Tokyo 1978) in Ronald A Morse (ed) ; The Politics of Japan's Energy Strategy (University of California, Berkeley 1981), pp 67-68. The Energy White Paper was published by MITI's Natural Resources and Energy Agency in 1973.

Firstly, Japan was concerned about future usage of the Malacca Straits, which in 1971 carried 90% of Japanese imports of crude oil.<sup>131</sup> Japan had been alarmed by recent Indonesian moves regarding the control of heavy traffic through the Malacca Straits.<sup>132</sup> Various proposals for controlling the Malacca Straits had been made - toll fees based on tonnage to be used for the maintenance of adequately dredged shipping lanes in the shallow waters of the Straits, the banning of supertankers more than 200,000 tons because of navigational hazards and threats to ecology, and an alternative route whereby supertankers bound for Japan would use the more time-consuming and expensive route through the Lombok and Makassar Straits.<sup>133</sup>

There is no doubt that the threat to control or close traffic through the Malacca Straits was a strategy used by Jakarta to exert bargaining power vis-a-vis Japan. In fact, there is reason to believe that an understanding was reached between Japan and Indonesia concerning future Japanese usage of the Straits of Malacca, and that this understanding was directly related to the 1972 Oil Loan and to Indonesia's plans to develop Batam Island.<sup>134</sup>

An oil refinery and terminal on Batam Island would mean that the Straits of Malacca could have more economic use for Indonesia, clearly helping to alter Indonesia's attitude towards the control of heavy sea traffic through the Straits. Furthermore, it could cater for the millions of barrels of Middle-Eastern crude oil which could be loaded onto Japanese supertankers after refining at Batam Island, guaranteeing Japanese oil supplies and access to the Malacca Straits. Credence is added to this by the fact that the Master Plan called for the use of 200,000-ton tankers to service the Batam refineries via a terminal constructed on a small offshore island in deeper water.<sup>135</sup> According to a representative of Nissho Iwai,

Crude oil imported from the Middle-East will not be shipped directly to Japan but will be refined firstly on Batam.<sup>136</sup>

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<sup>131</sup> E. Paul ; The Viability of Singapore : An Aspect of Political Geography (PhD Thesis, University of California, Berkeley 1973), p 326.

<sup>132</sup> These proposals, particularly the diversion of shipping from the Straits of Malacca and Singapore to the Indonesian Straits with the intention of servicing oil tankers coming from the Middle East at other Indonesian ports such as Cilicap instead of Singapore, also posed a serious threat to Singapore's position as the dominating port of call for oil tankers passing through the Straits of Malacca and as the centre for foreign oil companies conducting off-shore oil exploration in Southeast Asia. Michael Leifer ; Malacca, Singapore, and Indonesia (Sijthoff and Noordhoff, The Netherlands 1978), p110.

<sup>133</sup> C.V.Das & V.P.Pradhan ; Oil Discovery and Technical Change in Southeast Asia (Institute of Southeast Asian Studies, Singapore 1973), p 84. Quarterly Economic Review, Indonesia, No.1 1973, p 9.

<sup>134</sup> Michael Leifer ; Malacca, Singapore, and Indonesia (Sijthoff and Noordhoff, The Netherlands 1978) , p111.

<sup>135</sup> Petroleum News, January 1973, p4.

<sup>136</sup> Tempo, 20 May 1972.

Secondly, concerned about the dominant position of foreign companies in Japan's petroleum supply as well as the country's heavy dependence on Middle-Eastern oil, Japan was interested in both setting up oil channels to the Middle-East outside the control of Western oil companies, and in ensuring Indonesian oil supply during any Middle-East crisis. Japan hoped that the securing of a refinery on Batam Island would weaken the dominance of US refiners in Japan and would also challenge the vertically integrated operations of Caltex and Stanvac in Indonesia, as well as the western-owned refineries in Singapore.<sup>137</sup>

Japanese companies were quick to announce plans to build oil refineries on Batam Island. One Japanese venture included Nissho-Iwai, with Maruzen Oil and Daikyo Oil, two independent refiners which had strong backing from MITI (Japanese Ministry for International Trade and Industry) for the Batam Island oil refinery.<sup>138</sup> A second, involving Mitsubishi Oil, also expressed intent to build a refinery on Batam.<sup>139</sup> They were to be the first wholly-owned Japanese refineries outside Japan. The fact that the refineries would be situated outside the Indonesian customs area also meant that Japanese petroleum companies could attempt to persuade the Japanese government to accept oil refined on Batam as being of domestic origin for customs purposes.<sup>140</sup>

The refinery projects also promised access to Indonesia's growing production of crude - for Japan, the advantage of Indonesia's crude oil in terms of quality and transportation costs vis-a-vis Middle Eastern crude oil was estimated to be around US\$0.60 to US\$1.20 per barrel<sup>141</sup> - although these Japanese groups were apparently also interested in attracting the joint participation of a Middle-East member nation of OPEC (Organisation of Petroleum Exporting Countries). The Kuwait National Petroleum Company was apparently the first choice<sup>142</sup>, although Saudi Arabia was also approached about the possibility of cooperating with Indonesia and Japan in building a refinery on Batam.<sup>143</sup>

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<sup>137</sup> Wayne Robinson ; The Politics of Japanese-Indonesian Energy Cooperation, with particular reference to the period 1972-76 (PhD Thesis, Monash University 1980), pp 213, 374.

<sup>138</sup> Wayne Robinson ; The Politics of Japanese-Indonesian Energy Cooperation, with particular reference to the period 1972-76 (PhD Thesis, Monash University 1980), pp 374. Announced in December 1972, the Nissho-Iwai group's 100,000 b/d refinery, at a cost of US\$100m, would be used for export of Middle-East crude, and would be completed by the end of 1976. Bulletin Pertamina, 05/01/1973 (No.1 Th.IX).

<sup>139</sup> In January 1973, after making their own studies of the overall development project, including the oil refinery, the Mitsubishi Group announced its plans to construct a 100,000 b/d oil refinery at a cost of about US\$120m by 1977 to produce petroleum products from crude oil from the Middle East for shipment to Japan. Asia Research Bulletin, 1-31 March 1973, p 1712. Petroleum News, April 1973, p 12. Another report said that the refinery would have a processing capacity of 500,000 to 1,000,000 barrels of crude oil. Data for Decision, 5-11 February 1973, p 495.

<sup>140</sup> The Asian, 23-29 April 1972.

<sup>141</sup> International Development Centre of Japan ; Study of Economic Development of Indonesia, (March 1973), p 51.

<sup>142</sup> Petroleum News, July 1973, p 17.

<sup>143</sup> Petroleum News, Vol.5 No.2 1974, p 16.

Thirdly, Japan was attracted to the construction of a refinery, terminal and storage base on Batam Island because of concerns with pollution from the oil industry in Japan. Japan's land shortage, expensive labour market and the fact that Middle-East crude with its high sulphur content was pollutant-laden had dictated that Japan find an extra-territorial site for its refining terminal.<sup>144</sup> One reaction to the planned Batam Island refinery came from the Jakarta newspaper, Indonesia Raya, which called on the Indonesian government to provide strict environmental conditions on the refineries plan because of concerns with pollution.<sup>145</sup> Nonetheless, Japan would have been aware of Singapore's concerns about the pollution hazards of the nearby refineries, and would have wanted adequate safeguards so as not to affect Japan-Singapore relations.<sup>146</sup>

Lastly, Batam Island could play a role in Japan's 'develop and import' strategy, through which intermediate goods, such as steel and refined petroleum products, would be produced at sites close to energy and raw materials, then imported for final fabrication in Japan.<sup>147</sup> Indeed, the submissions to build oil refineries came with additional promises of bringing more industry with them. Credence is added to this because of the involvement of Nissho-Iwai in construction work on Batam Island and the development of the Masterplan which envisaged large industrial areas and a refinery complex.<sup>148</sup>

Therefore the planned development of Batam Island, particularly that concerning the oil industry, meant that Japan could guarantee oil supplies through access to Middle-Eastern crude oil via the Malacca Straits, ensure access to Indonesian crude and refined oil, and reduce dependence on western oil suppliers and refiners, in addition to reducing pollution in Japan. For Indonesia, the oil industry developments on Batam Island promised to boost the proportion of Indonesian oil exports going abroad as refined products, would provide a modest amount of labour and service earnings as well as tax revenues for the government, and would mean higher f.o.b prices for Indonesian crude as Japan passed on transportation cost savings to Indonesia, whilst the oil refineries would represent an important step nationally for Indonesia.<sup>149</sup>

<sup>144</sup> US Embassy, Jakarta ; Indonesia : Petroleum Industry Developments and Outlook, 1972/73. C.V.Das & V.P.Pradhan ; Oil Discovery and Technical Change in Southeast Asia (Institute of Southeast Asian Studies, Singapore 1973), p 83. Tempo, 20 May 1972.

<sup>145</sup> US Embassy Translation Unit Press Review, 13 December 1972.

<sup>146</sup> The Asian, 23-29 April 1972.

<sup>147</sup> Wayne Robinson ; The Politics of Japanese-Indonesian Energy Cooperation, with particular reference to the period 1972-76 (PhD Thesis, Monash University 1980), p 383.

<sup>148</sup> Wayne Robinson ; The Politics of Japanese-Indonesian Energy Cooperation, with particular reference to the period 1972-76 (PhD Thesis, Monash University 1980), pp 188.

<sup>149</sup> International Bank for Reconstruction and Development ; Development Issues for Indonesia, (December 1, 1972), Annex 5, p 22. Wayne Robinson ; The Politics of Japanese-Indonesian Energy Cooperation, with particular reference to the period 1972-76 (PhD Thesis, Monash University 1980), p 213. The Asian, 23-29 April 1972.

### **The Batam Island Master Plan**

Research for the Masterplan and various feasibility studies began in May 1972 and was to cost US\$1.2m.<sup>150</sup> The study, led by Pacific Bechtel, was carried out by a team of specialists, and involved visits to Batam Island and discussions with government officials and private companies in Indonesia and other parts of Southeast Asia.<sup>151</sup> Pacific Bechtel's mandate was :

to develop Batam Island industrially as part of a broad program to improve the Indonesian economy, increase foreign exchange earnings, create more employment, and effect a shift in population from the more crowded areas to those less populated.<sup>152</sup>

The rationale behind the development of Batam Island was to use the island's strategic location and other favourable attributes to attract foreign investment and generate significant foreign exchange earnings through export-oriented industries, thereby stimulating continued Indonesian development. The criteria used for the evaluation of potential industries were that they should be labour intensive, relate to port and freight activities, use or process Indonesian raw materials, manufacture products with growing and available world markets, support and complement the agriculture sector, and complement activities in Singapore and existing or planned major activities on Batam Island and its environs. Benefits for the Indonesian economy were expected to be increased employment generation, increased foreign exchange earnings through increased exports and value-adding through semi-finished and finished products.

The Master Plan required a total investment of US\$372m, comprising US\$122m from public funds, US\$158m from private funds and the remaining US\$92m from either public or private sources. To be provided over ten years - the target year for completion of Phase 1 was 1984 in order to coincide with the government's planning cycle, and also to allow sufficient lead time for construction of the major industrial projects - half of the funds would be required during 1975/76 for construction of the refinery and associated facilities. The initial development, consisting of refinery construction, a power plant, port facilities and a hotel, was intended to be in operation by January 1977. Infrastructure development would continue through the life of the program, keeping pace with industry and agriculture needs, whilst industries in the free trade zone would increase incrementally over time. It was suggested that public financing for the Master Plan was feasible through bilateral and multilateral assistance agencies, such as the

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<sup>150</sup> Batam Island Investment Guide, p 57.

<sup>151</sup> Batam Island Masterplan, p 1-1. Kompas, 12 May 1972. Kompas, 12 December 1972. Meetings of the joint team were held in San Francisco on 26 August 1972. Warta Pertamina, September 1972 (No.4 Th.VII). Petroleum News, Vol.6 No.2 1975. Discussions also took place in Singapore in October 1972. Indonesia Newsletter, 24 November 1972 (No.47 1972).

<sup>152</sup> Batam Island Masterplan, p 1-1.

World Bank, and that private financing was available through the US and Japan Export-Import Banks and from commercial and merchant banks.<sup>153</sup>

The Master Plan predicted that by 1984, primary employment would be 12,500 and secondary employment 27,500, with a total population on Batam Island of 100,000. The economic impact for 1984 was estimated to be worth US\$11m from primary jobs, US\$93m from value-adding, US\$80m from possible net foreign exchange earnings, with additional benefits being training, the introduction of new technology and increased domestic savings.<sup>154</sup> Batam Island would be a forerunner in industrial development, deviating from Indonesia's economic path - the projection for 1984 was that the economic structure of Batam Island would be 70% industry and 30% agriculture, whilst for Indonesia it would still be 80% agriculture and only 20% industry.<sup>155</sup>

The Master Plan provided for a balance between industry and agriculture, and the formation of integrated forward and backward linkages between industries - agricultural products would be processed on the island, metal fabricating plants would supply the refinery, the refinery would supply fuel to the utility plant, etc. It also provided for linkages with the rest of the Indonesian economy, since Batam Island could serve as a processing and transshipment point for other Indonesian goods. Because Batam Island was relatively undeveloped, it was believed that it provided an exceptional opportunity for a planned development, not hindered by existing facilities, and isolated from the central bureaucracy.<sup>156</sup>

It was decided to focus the development of Batam Island around one key industry - the refinery. The 100,000 b/d refinery, to cost US\$104.5 million, would use imported Persian Gulf crude oils to produce asphalt, petrol, bunker oil and other grades of fuel oil for re-export. The facility would also have fuel storage facilities and harbour infrastructures capable of accommodating 200,000-ton supertankers.<sup>157</sup> Considering conditions in the international petroleum market were very buoyant, the enormous refinery complex as the centrepiece of the planned development was appropriate, although its economic feasibility would depend overwhelmingly on the cost of crude oil and the prices obtained for refined products.

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<sup>153</sup> Batam Island Master Plan, 2-1.

<sup>154</sup> Batam Island Master Plan, 2-1.

<sup>155</sup> Batam Island Investment Guide, p 51.

<sup>156</sup> Batam Island Master Plan, 2-1.

<sup>157</sup> Batam Island Master Plan, 2-2.

Other industrial, agricultural, and tourism projects would create a major new industrial complex. Metal fabricating plants would meet the heavy demand for offshore structures, tanks and pressure vessels, while shipyards would build supply vessels. A US\$44m port and harbour facility would cater not only to visiting oil tankers but to the lucrative transshipment trade between Singapore and Indonesia, making Batam Island a major staging point for Indonesian foreign trade. Also included was a US\$55m utility plant.<sup>158</sup>

A free-trade zone was planned to attract export manufacturers and processors to Batam Island. The planned candidate industries would be labour-intensive, and would utilise domestic raw materials, for the purpose of diversifying the Indonesian economy. Potential fields of investment included wood processing, fisheries, fabricating plants, agricultural and chemical plants and the manufacture of agricultural equipment.<sup>159</sup>

Increased local agricultural output - 1500 ha. was allocated for fruit and vegetable production and 1500 ha. allocated to cattle production - was planned. Tourism was also included, and would be directed towards the Singapore market.<sup>160</sup>

The Master Plan's other major recommendations were that the industrial development of Batam Island should be under one single development authority, that cooperation with Singapore be encouraged, that a customs-protected zone be established, and that sufficient infrastructure be installed to make the location attractive to industry. The Master Plan noted that development on the island would be constrained by limitations of water and land, and recommended that development favour those industries with low water requirements, high employment and high value-added per hectare. The possibility of later linking up with surrounding islands such as Bintan was considered if Batam Island reached its capacity.

With regards to Singapore, it was recommended that Indonesia should hold discussions in the early planning stages to ensure that development on Batam Island would be mutually beneficial to both economies. Batam Island would require the following facilities from Singapore : port and harbour facilities, infrastructure such as housing during the early construction phases, recreation, educational and medical facilities for foreign investors, personnel and financial institutions. The development of tourism would require that better immigration and customs procedures with Singapore be established. The Master Plan also took account of the fact that Singapore's Jurong

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<sup>158</sup> Batam Island Master Plan, 2-2.

<sup>159</sup> Batam Island Master Plan, 2-3.

<sup>160</sup> Batam Island Master Plan, 2-3.

Industrial Park was reaching its full capacity<sup>161</sup>, and that Batam Island was able to offer Singapore a low-cost labour pool for labour-intensive industries which may become increasingly uneconomical to Singapore. It was noted that Singapore's future growth may have to be redirected towards greater cooperation with its neighbours.

Whilst the Master Plan foresaw the creation of a model trade zone and industrial centre, free from the sort of red tape that ensnared enterprises in the rest of Indonesia, it was later criticised by a foreign consultant as a rather cursory effort, lacking real depth.<sup>162</sup> However, the authors had noted that because of schedule and budget limitations the feasibility studies were necessarily of a preliminary nature and at that time did not permit detailed market analyses, economic studies or physical surveys. As a result the plan, as presented, was "intentionally broad and intended to be flexible".<sup>163</sup> Pacific Bechtel concluded that,

The industrial development of Batam Island appears technically and economically feasible. There do not appear to be any obstacles that cannot be overcome. Sufficient fresh water and food can be supplied locally at a reasonable cost. There is sufficient land area for economic development and a satisfactory site for harbour and port facilities. The impact of the projected development on the Indonesian economy is positive, and it appears that financing can be arranged.<sup>164</sup>

The Masterplan recommended that the development program be under way by 1 January 1974. In the meantime it recommended a number of specific actions, the most critical being : Indonesian government approval of the plan; the establishment of a development authority; an agreement on a refinery; and the arranging of finance for infrastructure development.<sup>165</sup>

### Approving of the Masterplan

The Batam Island Masterplan was submitted to Ibnu Sutowo on 11 December 1972, along with a letter of intent to build a refinery from the Japanese consortium led by Nissho-Iwai. Both companies involved in the development of the Masterplan - Nissho-

<sup>161</sup> Interview with member of the BIEA Secretariat, Pedrico, 17 November 1994.

<sup>162</sup> The Crux Consulting Group ; The Crux Report (1977), p 154.

<sup>163</sup> Batam Island Master Plan, 1-1.

<sup>164</sup> Batam Island Master Plan, 1-1. Much of this section is based on the details provided in the Master Plan document, except where indicated. A complete summary of the Master Plan can be found in Batam Island Investment Guide, pp 57-104. General details about the Master Plan can be found in the following sources. Kompas, 17 November 1972. Asia Research Bulletin, 1-31 March 1973, p 1712. Asia Research Bulletin, 1-31 August 1973, p 2097. Petroleum News, vol.5 No.2 1974, pp 15-17. Pertamina : Indonesian State Oil Enterprise (2nd edition), (Pertamina, Jakarta 1974), p 145. Petroleum News, Vol.6 No.2 1975, p 11. Far Eastern Economic Review, 2 May 1975. Straits Times, 19 May 1972. Sevinc Carlson ; Indonesia's Oil (Westview Press, Boulder 1977), pp 61-62.

<sup>165</sup> Batam Island Master Plan, 2-3.

Iwai and Pacific Bechtel - reiterated their interest in taking part in the development.<sup>166</sup> Pertamina then set about arranging finance, seeking government approval and establishing a development authority for Batam.

The World Bank optimistically suggested that, "The economic justification, timing and finance of the infrastructure and refinery project for Batam Island would, of course, be put to Pertamina's new Board of Commissioners for consideration."<sup>167</sup> At the beginning of 1972, Pertamina had been placed under a Board of Commissioners, consisting of the Minister of Mines as Chairman, Minister of Finance as Deputy Chairman and three other Ministers, for the purpose of raising the government's influence over the company.<sup>168</sup> However, because the Board of Commissioners had difficulty refusing any of Ibnu Sutowo's schemes prior to 1975, it is doubtful whether it was consulted over Pertamina's plans for Batam.<sup>169</sup> Despite this, the need to obtain government approval for the US\$372m. Masterplan still meant that the processes would involve considerable negotiation with the technocrats.

It was to be one of the few occasions when Ibnu Sutowo and Pertamina did not have complete say over their plans. The reasons were many, and varied, ranging from the President's own concerns, the reaction of the technocrats, and to Indonesia's relations with Singapore, and it was to be almost a year before any official announcement regarding the Masterplan was made by the government.

### Technocratic Concerns

On 29 December 1972, the Batam Island Masterplan was submitted to President Soeharto, whose immediate reaction was the announcement that it would be studied by the government, in particular by Bappenas.<sup>170</sup> How much of, or indeed if, the Masterplan would be implemented depended on the government's decision, the terms to be negotiated with prospective investors, and the availability of acceptable financing for both public and private sector portions of the plan.<sup>171</sup>

<sup>166</sup>The group consisted of Nissho-Iwai, Daikyo Oil, Maruzen Oil Coy, and the Industrial Bank of Japan. Pertamina : Laporan Tahunan 1972 (Pertamina, Jakarta, 1972). Pertamina : Indonesian State Oil Enterprise (2nd edition), (Pertamina, Jakarta 1974), p 145. Indonesia Newsletter, 24 November 1972 (No.47 1972). Nusantara, 12 December 1972. Indonesia Newsletter, 7 January 1973 (No.1 1973).

<sup>167</sup>International Bank for Reconstruction and Development ; Development Issues for Indonesia (1 December 1972), Annex 5, p 22.

<sup>168</sup>Law No.8 1971, which came into effect on 1 January 1972, was made in consideration of Pertamina's incredible horizontal and vertical expansion, and was intended to guide Pertamina towards working along the lines of the Repelita. Whilst Pertamina was to remain autonomous, it was now meant to feel the pressure from its shareholders, the government. Interview with Gozali, 18 November 1994.

<sup>169</sup>Far Eastern Economic Review, 30 May 1975, p 51.

<sup>170</sup>Bulletin Pertamina, 5 January 1973 (No.1 Th.IX). Kompas, 29 December 1972. Pertamina : Laporan Tahunan 1972 (Pertamina, Jakarta, 1972). Pertamina : Indonesian State Oil Enterprise (2nd edition), (Pertamina, Jakarta 1974), p 145.

<sup>171</sup>US Embassy, Jakarta ; Indonesia : Petroleum Industry Developments and Outlook, 1972/73.

It is clear that when he took his Masterplan idea to the President, Ibnu Sutowo was told that the project must not just fulfil the needs of Pertamina but that the plan must fit into the overall national strategy.<sup>172</sup> Soeharto's conditions for the Masterplan had been that the development of Batam Island not be outside the Repelita, that it must have the full support of, and be financed by the private sector, and that it must complement, not compete with, Singapore, and these had apparently been considered by the team drawing up the Masterplan.<sup>173</sup>

The World Bank's position on the development of Batam Island was not clear. The International Development Association (IDA), a World Bank affiliate, had been encouraging Indonesia to develop bonded export processing zones and industrial estates for labour-intensive industries oriented to export.<sup>174</sup> The IDA's position on such industrial estates was that they were important principally to take advantage of economies in the provision of infrastructure facilities. The IDA, however, stressed that they should be prevented from becoming enclaves for foreign enterprises and not be limited to large firms.<sup>175</sup> In addition, the IDA noted that the location of estates was extremely important, for they do not foster industrial concentration unless they are close either to raw materials, or to markets, and that "the establishment of industrial estates...in areas in which industry is not already growing has in most circumstances been unsuccessful..."<sup>176</sup>

The IDA report further noted that a bonded warehouse-free trade port system was likely to be of assistance only to specifically export-oriented companies which were generally foreign companies. It noted that their contribution to employment was not very significant in absolute numbers, that they generally contribute little value-added, and that their total contribution to the balance of payments may not be very significant. Whilst noting that such areas should not be discouraged, the IDA recommended a balanced approach which included the development of local industries for international trade as well.<sup>177</sup>

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<sup>172</sup> Interview with former BIDA Vice-Chairman, Hernomo, 22 August 1994.

<sup>173</sup> Interview with member of the Masterplan team, Pedrico, 17 November 1994.

<sup>174</sup> Graeme Thompson & Richard C. Manning; "The World Bank in Indonesia", Bulletin of Indonesian Economic Studies, July 1974 (No.2 Vol.X), p 70.

<sup>175</sup> International Bank for Reconstruction and Development; Development Issues for Indonesia (1 December 1972), Annex 4, p 17.

<sup>176</sup> International Bank for Reconstruction and Development; Development Issues for Indonesia (1 December 1972), Annex 4, pp 17-18.

<sup>177</sup> The IDA later assisted with the development of an industrial estate in Jakarta but it was essentially oriented to domestic companies. International Bank for Reconstruction and Development; Development Issues for Indonesia (1 December 1972), Annex 4, p 10.

The technocrats' own position on the idea of the Batam industrial and free trade area was unclear. Several ministers supported export-oriented industrial and free-trade areas, and it was precisely because of its export platform nature that the Batam project received the nod from Bappenas.<sup>178</sup> However, according to media reports, Bappenas had several concerns - pollution, little employment generation, few economic benefits and foreign exchange earnings - in spite of the benefits outlined in the Masterplan.<sup>179</sup> Bappenas apparently also had doubts about how the project could be fulfilled. One official said,

Does Batam really need to be built as intensively as that; complete with an export harbour especially for oil, with an industrial area on par with Jurong, requiring facilities from roads to an airport.<sup>180</sup>

It is very doubtful, however, that these reports accurately portrayed the position of the technocrats. Indeed there appeared to be some confusion over Bappenas's position on the Masterplan at the time, to the extent that it wanted complete control over the Batam project.<sup>181</sup> It was even suggested that there were two plans for Batam Island - Pertamina's plan for an oil supply and logistics base which would become the 'Houston' of Southeast Asia, and Bappenas's plan to make Batam Island a national industrial area - and that the plans were to be integrated.<sup>182</sup> However, the view that the Masterplan was unfortunately designed without the participation of Bappenas, and that it should have been invited from the very beginning to give its views, was wide of the mark.<sup>183</sup> Bappenas did not have its own plan but it did have concerns, most of which had been taken into account in the Masterplan.

The technocrats gave their support to the overall focus of the Masterplan, and had made their position clear to those involved in drawing it up.<sup>184</sup> Bappenas's position had been that Batam Island was not to compete with, but must have inter-linkages with, be complementary to, and act as a hinterland for Singapore, whilst at the same time taking advantage of Singapore as a centre for the oil industry. In addition, Batam Island must not be a non-earning activity, must not use subsidies, must not be limited to Pertamina, and must be financed through the private sector.<sup>185</sup>

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<sup>178</sup> *Kompas*, 17 November 1972.

<sup>179</sup> *Tempo*, 8 September 1973, p 49.

<sup>180</sup> *Tempo*, 8 September 1973, p 48.

<sup>181</sup> Personal Interview with former Pertamina official, 27 October 1994.

<sup>182</sup> See remarks made by Abihasan Said. *Kompas*, 23 May 1973. One editorial suggested Batam Island had been affected by the existence of 2 planning bodies, 2 budgets and 2 planning programs. *Sinar Harapan*, 2 September 1976.

<sup>183</sup> "The dilemma of Batam Island", *Indonesian Oil and Gas*, November 1975 (No.4 Vol.1), p 2.

<sup>184</sup> Interview with member of the Masterplan team, Pedrico, 17 November 1994.

<sup>185</sup> Interview with former minister, Emil Salim, 18 August 1994.

Whilst the Batam Island Masterplan was not incorporated into Repelita II, drawn up by Bappenas in 1973, there were some references to overall planned developments, and these presumably had the approval of Bappenas. According to Repelita II, Batam Island would "be developed into an industrial area", which would include a petrochemical industrial centre, an oil refinery and general regional infrastructure development such as harbour and airport expansion.<sup>186</sup>

The technocrats did, however, have one major concern with Pertamina's plans for Batam - the US\$372m. price tag, of which between US\$122m. and US\$214m. was to come from public funds. Pertamina reportedly requested US\$200m.<sup>187</sup> Finance Minister, Ali Wardhana, however, was apparently only prepared to offer US\$100m., presumably through offshore loans and not from budgetary sources. Ibnu Sutowo rejected the offer, well short of Pertamina's request, on the basis that the initial inputs for the oil industry developments planned for Batam Island were necessarily high due to technological and other factors.<sup>188</sup>

Ibnu's request for funds came at the same time that the IMF had discovered that Pertamina had taken out a large loan in 1972 without the knowledge of the Ministry of Finance. It was a turning-point in Ibnu-technocrat relations. The IMF was applying considerable pressure on the Minister to control Pertamina's activities, to the extent that a further IMF Agreement was not signed in April 1973, and the United States suspended credits and aid funds to Indonesia.<sup>189</sup> This had dramatically sharpened the conflict between the technocrats and Ibnu Sutowo, and may well have influenced the attitude of Ali Wardhana towards funding the Batam Island project.

In addition to the amount of funds requested by Pertamina, Ali Wardhana apparently felt that Pertamina's plans for free-trade status would turn Batam Island into a smugglers centre.<sup>190</sup> Indeed, it was suggested that the delaying of approval of the Masterplan was caused by fears that Batam Island may develop into another Sabang Island debacle.<sup>191</sup> A free port during Dutch colonial rule, the free port status of Sabang Island was revived by Sukarno during *Konfrontasi* as an economic weapon against Singapore, but its role soon declined and the island had become heavily involved in

<sup>186</sup> Repelita II, Book IV, pp 62, 65, 66-7.

<sup>187</sup> Tempo, 8 September 1973, p 48.

<sup>188</sup> Interview with Ibnu Sutowo, 23 August 1994.

<sup>189</sup> Jean Aden Bush ; Oil and Politics in Indonesia, 1945 to 1980 (PhD Thesis, Cornell University 1988), pp 376-77.

<sup>190</sup> Interview with Pedrico, 17 November 1994.

<sup>191</sup> See remarks by BIDA Chief Executive, Abihasan Said. Tempo, 20 October 1973.

smuggling operations.<sup>192</sup> In 1970 official estimates of the value of smuggled goods entering Sabang free port were put at US\$1m. a day.<sup>193</sup>

To some extent, this was a victory for the technocrats. In their battle with Ibnu Sutowo and Pertamina over the financing of the Batam project, they had refused to outlay budgetary monies or to approve the amounts requested by Pertamina. The victory, however, like other attempts to place controls over Pertamina, was to be a shallow one. In August, President Soeharto stated that Batam would not be financed from the government's budget, but instead would rely on funds which Pertamina could procure, and on the activities of private investors.<sup>194</sup>

Left to seek funding offshore, Ibnu sidestepped the technocrat's regulations covering foreign borrowings, as he was to do on several occasions, and obtained funds for the Batam project from Japan, the USA and Singapore.<sup>195</sup> As one Pertamina official said,

If the government is reluctant to provide money, there are still other avenues for obtaining funds.<sup>196</sup>

The time needed to acquire the funds caused some delay, but the implementation of the Masterplan began as soon as funds were available, regardless of official announcements. In the end Batam Island remained very much a Pertamina project, in style and in practice. Chief Executive Officer for Batam Island, Abihasan Said, was later quoted as saying,

If we had to wait for approval of the Master Plan, work would never begin. But the work we are doing is not in conflict with the Master Plan.<sup>197</sup>

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<sup>192</sup> Its failure to become an export channel lay partly in poor infrastructure and the regulations imposed upon it, the fact that it lay on the old shipping routes, and a weakness of backward linkages into the Sumatran hinterland. However, perhaps the main reason for its decline was the regulation in August 1971 requiring full duty be paid on all goods taken out of Sabang. Until then, duty was paid only when goods entered ports in the Indonesian customs area, a system which proved unworkable because of smuggling. Boediono Ibrahim Hasan ; "An Economic Survey of DI Aceh" Bulletin of Indonesian Economic Studies, July 1974 (No.2 Vol.X), pp 45-46.

<sup>193</sup> Far Eastern Economic Review, 26 February 1970, p 51.

<sup>194</sup> Kompas, 24 August 1973.

<sup>195</sup> Interview with Dr Sanger, 20 November 1994. The US EXIMBANK may have been involved in discussions about financing the refineries. US Embassy, Jakarta ; Indonesia : Petroleum Industry Developments and Outlook, 1972/73. It is doubtful whether the World Bank provided any assistance for the Batam Island project, for it was not even clear to what extent Pertamina would undertake borrowings for the project, nor from what sources. International Bank for Reconstruction and Development ; The Indonesian Economy : Recent Developments and Prospects for 1974/75, (26 November 1973), Annex C, p 2.

<sup>196</sup> Tempo, 8 September 1973, p 49.

<sup>197</sup> Petroleum News, No.2 Vol.5 1974, p 16. It was reported that Nissho-Iwai, Pacific Bechtel and Pertamina were still awaiting government approval of certain aspects of the Masterplan at the end of 1973, but developments on Batam Island proceeded regardless. Far Eastern Economic Review, 24 December 1973, p26. Warta Pertamina, Februari 1974 (No.9 Th.XIII). Pertamina ; Annual Report 1973/74. The only suggestion of approval of the Master Plan comes from Tempo, 22 November 1975.

However, despite the tacit approval of Bappenas for the overall strategy for the development of Batam, and its own ability to obtaining funds, Pertamina faced another obstacle to overcome before it could go ahead with its plans. That obstacle was Indonesia-Singapore relations.

### **Diplomatic Concerns**

It is clear that the Indonesian government's efforts to develop Batam Island gave rise to speculation that it was meant as a rival to Singapore as a free port, and that any immediate action on, or sanctioning of, the Master Plan may have been delayed so as not to jeopardise Lee Kuan Yew's upcoming visit to Jakarta, and Indonesia-Singapore relations in general.

Minister for Industrial Affairs, M. Jusuf's refusal to answer questions about Batam Island when meeting the DPR Commission VI later in the year, was interesting for not only the fact that he told them that it was a socio-political matter, meaning that it was not an economic matter, but that he referred them to Foreign Minister Adam Malik, suggesting that the Foreign Ministry played some part in delaying official announcements on Batam Island.<sup>198</sup> In fact, following the first Lee-Soeharto meeting in May 1973, there was speculation that Pertamina might even scale down its plans for Batam Island, in order to allay Singaporean concerns.<sup>199</sup>

Secretary of State, Sudharmono, was to refute suggestions at the time the Masterplan was submitted, that Batam Island had the aim of competing with Singapore, adding that many Singaporean investors had shown interest.<sup>200</sup> Whilst a number of Singapore-based companies had expressed interest in setting up plants on Batam Island, particularly labour-intensive industries and companies wanting to escape the pollution regulations in Singapore<sup>201</sup>, in general, Singaporean business circles viewed Batam Island with concern, as a possible competitor and a threat to Singapore's dominating role as an industrial centre and free port in the region.<sup>202</sup>

If successful, Batam Island built along the lines of the Master Plan, could constitute a formidable rival to Singapore as a free port for larger ocean-going ships and an oil-refining centre, and capable of exporting Indonesian manufactured goods. On the other hand, as the implementation of the Master Plan would require a closer working relationship with the Singapore government, it could also have a positive effect on

<sup>198</sup> Current Affairs Translations, September 1973 Bulletin.

<sup>199</sup> Petroleum News, July 1973, p 17.

<sup>200</sup> Kompas, 29 December 1972.

<sup>201</sup> Indonesia Raya, 1 August 1973 reported in Petroleum News, October 1973, p 30.

<sup>202</sup> Interview with businessman, Claude Reghenzani, 30 September 1994. Asia Research Bulletin, 1-31 May 1972, p 957. Petroleum News, July 1973, p 17. Straits Times, 19 May 1972.

Singapore-Indonesia relations. It was already clear that Singapore derived benefits from the proximity of Batam Base, particularly from the handling and transshipment of construction materials and machinery. As one Singapore newspaper headlined, "Singapore is Vital in Batam's Master Plan."<sup>203</sup>

Goh Chok Tong, later to become Singaporean Prime Minister, and who at the time was with the economic planning unit and asked to advise on policy towards the possible economic rival location, later reflected on the Batam Masterplan.

As a young officer, I was asked to study the masterplan of Batam to see the impact on Singapore. In other words, to put it frankly, would the development of Batam have a favourable or adverse impact on Singapore. I took some time to study the details of the plan and I came to the conclusion that Batam's development would be to the benefit of Singapore.<sup>204</sup>

Singapore Prime Minister Lee Kuan Yew visited Jakarta in May 1973, representing the most important contact between the two countries since the end of *Konfrontasi*, and almost immediately he and Soeharto became quite close.<sup>205</sup> The Batam project was discussed at meetings between the two leaders, including proposals for Singapore to participate in the development of the island.<sup>206</sup> The Singaporean Foreign Minister, Rajaratnam, had earlier referred to the Minister of Finance, Goh Keng Swee, as having "given assistance to the [Batam] project", indicating either financial or other assistance.<sup>207</sup> Despite that, speculation continued as to whether the project was planned with the objective of competing with, or cooperating with Singapore.<sup>208</sup>

In order to dispel speculation in Singapore about Indonesia's motives in developing Batam Island, particularly in government circles, a team of top Singaporean government officials visited Batam Island in July 1973, in what were described as the very first 'contacts' with the Indonesian government on possible joint cooperation to develop the island. The team purportedly was to take a 'first-hand' look at the possibility of making a feasibility study on Batam Island's tourist potential, but most likely also looked into the feasibility of Singapore's participation in the industrial and oil-related projects.<sup>209</sup> Ibnu Sutowo made a reciprocal visit to Singapore in order to discuss the possibility of cooperation in the oil industry.<sup>210</sup>

<sup>203</sup> Business Times, 12 March 1973.

<sup>204</sup> Straits Times, 29 June 1986.

<sup>205</sup> For Soeharto-Lee discussions see Straits Times, 25-26 May 1973. Interview with former Foreign Minister, Mochtar Kusumaatmadja, 4 August 1994.

<sup>206</sup> Kawin Wilairat ; "Singapore's foreign policy in the 1970s : The reconciliation of global and regional interests", Southeast Asian Affairs 1974 (ISEAS 1974), p 294.

<sup>207</sup> Tempo, 26 May 1973, p7.

<sup>208</sup> Far Eastern Economic Review, 13 August 1973.

<sup>209</sup> The 18-member team led by the Port of Singapore Authority Chairman, Mr Howe Yoon Chong, included Permanent Secretary in the Finance Ministry, Ngiam Tong Dow. New Nation, 17 July 1973. New Nation, 26 July

Singaporean Prime Minister, Lee Kuan Yew, later made an unofficial visit to Batam in 1974, accompanied by several senior officials, including the Minister for Defence and the Head of the Port of Singapore Authority.<sup>211</sup> Met by Ibnu Sutowo, they visited Pertamina's operations centre at Sekupang, and the industrial area at Batu Ampar where some 100 Singaporeans were working as welders for an oil-rig production company. Lee Kuan Yew was apparently pleased to see that a large number of Singaporeans were employed on the island, and that it was clear that Batam Island was not going to be a competitor to Singapore.<sup>212</sup> Lee left Batam Island with the impression that it would complement Singapore, and told officials in his entourage to assist with the project in any way. As a result immigration and the movement of goods between Singapore and Batam Island was eased.<sup>213</sup>

On a diplomatic level, Indonesian Ambassador to Singapore, Let-Gen Rukmito Hendraningrat, outlined a five-point plan for promoting "prospects of cooperation between Indonesia and Singapore", which included development of the Riau islands, specifically Batam.<sup>214</sup> Foreign Minister, Adam Malik, suggested there was mutual benefit :

They [Singapore] have limited space. They cannot make anything they like. That's why they are very happy to have extensions in Batam. The problem, of course, is to select what kind of industry in Batam and what kind in Singapore...The more we develop the area around Singapore the greater is Singapore's chance for making profit.<sup>215</sup>

Singapore Ambassador to Indonesia, Lee Khoo Choy, also spoke about cooperation on Batam :

With proper arrangements, Singapore can make a useful contribution towards the development of the Bataam [sic] project. Joint efforts are now being made to develop Bataam into a cattle ranch whereby it can supply Singapore with a continuous flow of cattle for the slaughter house in Jurong or for re-export. With Singapore's technological knowhow in ship-building and ship repairing, one can explore the possibility of joint ventures in the ship-building industry or any light industry on

1973. Dr Goh Keng Swee later suggested that Singapore become involved in the development of tourism on Batam Island. *Far Eastern Economic Review*, 9 August 1974.

<sup>210</sup> *Straits Times*, 12 June 1973. *Warta Pertamina*, Juli 1973 (No.2 Vol.VIII). At some point Ibnu held discussions with Goh Keng Swee about Singapore financing a 500,000 b/d refinery on Batam Island. Interview with Dr Sanger, 20 November 1994. In August 1974, Pertamina and the Singapore Petroleum Co. agreed to cooperate in the oil industry. *Straits Times*, 1 September 1974.

<sup>211</sup> The unpublicised trip was organised by the Ambassadors of both countries, Head of Security General Yoga and BIDA. Interview with Lee Khoo Choy, 11 October 1994. Interview with Abihasan Said, 16 August 1994.

<sup>212</sup> Interview with Abihasan Said, 16 August 1994.

<sup>213</sup> Interview with Abihasan Said, 27 October 1994. Interview with Ibnu Sutowo, 23 August 1994. Interview with former Pertamina Liaison Officer in Singapore, Sumarno Dipodisastro, 31 August 1994.

<sup>214</sup> *Asia Research Bulletin*, 1-31 August 1973, p 2104. *Indonesian Perspectives*, September 1973, p9.

<sup>215</sup> *Far Eastern Economic Review*, 24 December 1973.

Bataam Island. Given stable conditions and adequate arrangements, much can be done to promote Singapore's participation in the development of Bataam for mutual benefit.<sup>216</sup>

President Soeharto, however, had the last word. In a speech to the Indonesian Exporters Association on 23 August 1973, he indicated his approval of Pertamina's plans, thus ending any lingering conflict between Ibnu and technocrats over the Masterplan, and publicly stated that the project was not meant to rival Singapore, but would be used to update Indonesia's trade facilities. According to Soeharto, the Batam Island project was necessary for the promotion of Indonesia's trade and economy.

We must develop Batam Island as a centre of our export commodities and a free port. But the project is not meant to rival Singapore.<sup>217</sup>

By the end of 1973, any major misunderstandings about Batam Island between Singapore and Indonesia appeared to have been cleared up, and as Soeharto indicated above, plans for Batam Island were to proceed. With government approval of plans, the overcoming of concerns in Singapore, and the obtaining of funds, Pertamina went ahead with its plans to develop Batam Island along the lines envisaged in the Masterplan. One further step remained, the establishing of a development authority for Batam Island.

### **The Batam Industrial Development Authority**

On 22 November 1973, Presidential Decree No.41/1973 declared all of Batam Island an Industrial Area with emphasis on an entrepot role, essentially sanctioning Pertamina's plans for Batam as outlined in the Masterplan.<sup>218</sup> It had long been stressed that the development of Batam Island was a government project, not Pertamina's, but now its authoritative body was to officially make decisions, and carry out its activities, on behalf of the government.

The government had first begun to assert its influence on the Batam Island project in 1972 when Major-General Dee Hernomo, former Chief-of-Staff of KOSTRAD, was appointed Vice-Chairman of the BIEA. As government representative, Hernomo was in charge of day-to-day coordination of the industrial zone from Jakarta, reporting not

<sup>216</sup> New Directions, October 1973, No.1 Vol.1.

<sup>217</sup> Singapore Economic Bulletin, 31 August 1973, p 36. Soeharto explained that whilst Indonesia had experienced difficulties in its export trade because of a lack of storage facilities in its ports, the harbour facilities on Batam Island would enable Indonesia to export directly rather than use transit ports, and that ocean-going vessels would be able to call at Batam Island once the building of bonded warehouses had been completed there, and would have no pretext for by-passing. "We want to update our own trade facilities. It is appropriate that we develop our capacity in this regard." The benefits of such a development were increased foreign-exchange earnings and state finances savings. Indonesia Newsletter, 3 September 1973 (No.35 1973). See also Asia Research Bulletin, 1-31 August 1973, p 2104. Kompas, 24 August 1973. Petroleum News, September 1973, p 23.

<sup>218</sup> Hernomo wrote the Presidential Decree. Interview with Hernomo, 22 August 1994.

only to Ibnu Sutowo but directly to the President.<sup>219</sup> When it came to creating a new development authority, the government, on the insistence of Bappenas, arranged the structure of supervision of Batam Island in such a way that it gave the government more control over what was essentially a Pertamina-run and Pertamina-staffed project.<sup>220</sup>

The most important feature of Presidential Decree No.41/1973 was that it considered "that in order to intensify and facilitate the development of the Batam Industrial Area, it is necessary to review and to upgrade the management of Batam Island as an Industrial Area, as stated in Presidential Decree No.74/1971."<sup>221</sup> This was done through the setting up of three separate bodies to develop, administer, manage and supervise the Batam Industrial Area - the Batam Industrial Area Supervisory Board (Badan Pengawas Daerah Industri Pulau Batam), the Batam Island Industrial Development Authority (Otorita Pengembangan Daerah Industri Pulau Batam or BIDA), and the Batam Industrial Corporation (Perusahaan Perseroan Penguasaan Daerah Pulau Batam or PT Persero Batam).

The Batam Industrial Area Supervisory Board, made up of senior ministers of the Indonesian government, was to be responsible for supervising the implementation of policies, co-coordinating policies of various government agencies, and to provide BIDA with directives concerning the industrial development of Batam Island in conformity with the government's policies. The Board, directly responsible to the President, consisted of the following members : Minister of State for Economy, Finance and Industry/Chairman of Bappenas (Chairman of the Board), Minister of Internal Affairs, Minister of Finance, Minister of Trade, Minister of Industry, Minister of Communications, Chairman of the BKPM, and Governor of Riau Province. BIDA was also to be assisted by a team of assistants comprising the Director-Generals of Internal Revenue, Customs and Excise, Sea Communication, Trade, Development and Manpower, Land and Immigration.<sup>222</sup>

The Batam Island Industrial Development Authority (BIDA) was given responsibility to promote and manage the development of Batam Island into an Industrial Estate, to develop and control transshipment activities, to plan and construct infrastructure and

<sup>219</sup>In 1972 Hernomo was appointed by Soeharto as Vice-Chairman of BIDA, after the death of the previous Vice-Chairman Brig-Gen Teuku Hamzah, to act as the "government representative". Prior to that he was Chief of Staff of KOSTRAD, 1970-72, and had twice served as Soeharto's assistant - 1957 in Central Java and 1962 as logistics officer in KOSTRAD. Interview with Hernomo, 22 August 1994. See also Panitia Penyusun Sejarah Kostrad ; Kostrad Dharma Putra.

<sup>220</sup>Interview with Hernomo, 22 August 1994. The precedent used for the Decree was Law No.8 1971 on Pertamina, which came into effect on 1 January 1972. Whilst Pertamina was to remain autonomous, it was meant to feel the pressure from its shareholders, the government. Interview with Gozali, 18 November 1994.

<sup>221</sup>Keputusan Presiden No.41 1973 (22 November 1973).

<sup>222</sup>Keputusan Presiden No.41 1973.

other facilities, and to handle investment applications. In addition it was given all administrative rights to land on Batam Island. In carrying out its duties, it was directly responsible to the President, and it was to give priority to guidance from the Supervisory Board.<sup>223</sup>

Modelled along the lines of the Jurong Town Corporation in Singapore, BIDA was essentially an instrument for integrating several departments and to lessen complicated bureaucracy in a small area, thus facilitating private investment. It was to be isolated from the centre, and thus free from social and administrative interferences which normally handicapped investment in Indonesia. Essentially BIDA was set up because the regional capacity and administration was not there, and would in any case be unable to deal with the Singapore government, if required, or make decisions fast.<sup>224</sup> BIDA's staff remained unchanged from the BIEA. Dr Ibnu Sutowo became Chairman, Major-General Hernomo was Vice-Chairman, and Dr Sanger was Secretary.<sup>225</sup>

PT Persero Batam (Batam Industrial Estate Management Corporation) was also formed for the purpose of developing and financing the construction of infrastructure needed to facilitate transshipment, trading and industrial activities on Batam Island.<sup>226</sup> Essentially a bonded warehouse administrator, the state-owned company was directly responsible to the Minister of Finance, and given responsibility for the control of the movement of goods in and out of Batam, as well as handling supervision of customs collection.<sup>227</sup>

On Batam Island, supervision of day-to-day operations was placed in the hands of the Chief Executive Officer, Colonel Abihasan Said, who was appointed in 1972 by Ibnu Sutowo who had known him in Palembang during the Indonesian revolution.<sup>228</sup> Abihasan held concurrently the position of Pertamina Liaison Officer in Singapore, and later also that of Pertamina Site Manager for Batam Island because of the large number

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<sup>223</sup> Keputusan Presiden No.41 1973.

<sup>224</sup> Interview with former minister, Emil Salim, 18 August 1994. Promotion was also assisted through coordination with staff from the Indonesian Embassy in Singapore. Bulletin Pertamina, 9 February 1973 (No.6 Th.IX). Bulletin Pertamina, 02/03/1973 (No.9 Th.IX). Bulletin Pertamina, 13 April 1973 (No.15 Th.IX).

<sup>225</sup> Dr Sanger was appointed on the 09/01/1974 under Surat Keputusan Direktur-Utama Pertamina No.59/Kpts/DR/DU/1974. Pertamina Bulletin, February 1974 (No.2 Vol.III).

<sup>226</sup> Outlined in Keputusan Presiden No.41 1973. PT Persero Batam was finally created by PP No.43 1973 (4 December 1973). It wasn't until June 1974 that several bonded warehouses were allocated on Batam Island - at Batu Ampar, Kabil and Sekupang. Keputusan Presiden No.33 1974 (29 June 1974). PT Persero was later given permission to manage the bonded warehouses by the Minister of Trade. Surat Keputusan Menteri Perdagangan No.321/Kp/VIII/74 (26 August 1974). PT Persero was also later granted a license to manage and operate the bonded warehouses. Surat Keputusan Menteri Perdagangan No.21/Kp/II/78 (1 February 1978).

<sup>227</sup> A Persero is a limited liability company whose shares are owned wholly or partly by the government as represented by the Minister of Finance, and is expected to operate as a profit-oriented commercial venture.

<sup>228</sup> Mara Karma ; Ibnu Sutowo (PT Gunung Agung, Jakarta 1979), p 143. Abihasan Said ; Bumi Sriwijaya Bersimbah Darah (Yayasan Krama Yudha, Jakarta 1992) , p 93.

of Pertamina projects being undertaken.<sup>229</sup> Abihasan's position oversaw some forty projects, consisting of Pertamina's logistics base at Sekupang, joint ventures with foreign investors at Batu Ampar, as well as assisting the private ventures of foreign and domestic investors and carrying out infrastructure projects outlined in the Masterplan.<sup>230</sup>

Whilst it had taken longer than anticipated, Ibnu Sutowo completed all the recommendations outlined in the Masterplan - government approval, financing, and a development authority - for development to be under way by 1 January 1974. With everything in order, Ibnu Sutowo gave orders for the Batam project to be completed as fast as possible.<sup>231</sup>

### **Economic Activity on Batam Island, 1974**

Pertamina was carrying out the largest number of projects on Batam Island, primarily the infrastructure and community projects outlined in the Masterplan. These projects included an airstrip, jetties, wharves, godowns, a power plant, a telecommunications centre, roads, office buildings, housing, warehouses, a water purification plant, fresh water reservoirs, a mosque, a church, schools and a health centre.<sup>232</sup>

Pertamina was also running its own logistics base at Sekupang. Pertamina Batam was to differ from the existing Pertamina organisational framework in that it was not a production unit. By late 1974, Pertamina Batam had begun to take over Pertamina Unit VII's facilities on Batam Island, effectively defining a role for itself, strengthened by the decision to create the position of Site Manager for Pertamina Batam.<sup>233</sup> By the end of 1974, 272 Pertamina employees were stationed on Batam.<sup>234</sup>

Beginning in April 1974, Pertamina goods began entering Indonesia via Batam, and by the middle the year Pertamina's logistic base at Sekupang was fully functional, and it was expected that all goods for Pertamina would be unloaded through Sekupang harbour.<sup>235</sup> The first transshipment was done in early 1974, when without a harbour, a

<sup>229</sup> Under Surat Keputusan Direktur-Utama Pertamina No.1918/Kpts/DR/DU/1974. Bulletin Pertamina, 4 October 1974 (No.40 Th.X).

<sup>230</sup> BPOPDIPB ; Laporan Tahunan 1974, p1.

<sup>231</sup> Interview with Abihasan Said, 16 August 1994.

<sup>232</sup> Batam Island Investment Guide, p 115, 122-23, 126. Pertamina Bulletin, February 1974 (No.2 Vo.III). Sevinc Carlson ; Indonesia's Oil , (Westview Press, Boulder 1977) , p 62. Syarnubi Said apparently paid for the Sekupang Port. Interview with Wijarso, 3 November 1994.

<sup>233</sup> BPOPDIPB ; Laporan Tahunan 1974, p 19. Surat Keputusan Direktur-Utama Pertamina No.1918/Kpts/DR/DU/74 (5 September 1974).

<sup>234</sup> They numbered 92 in 1973. BPOPDIPB ; Laporan Tahunan 1974.

<sup>235</sup> Current Affairs Translations, June 1974 Bulletin. Pelita, 13 August 1975.

42,000 ton shipment of imports for Pertamina destined for Belawan, Cilicap and South Sumatra was unloaded onto barges off the Batam coast at Sekupang.<sup>236</sup>

In addition to wholly-owned Pertamina subsidiaries servicing foreign oil companies - PT Elektronika Nusantara (Elnusa), which serviced land and offshore operations, and PT Pertamina Tongkang, which operated transportation vessels servicing offshore oil operations<sup>237</sup> - Pertamina had a number of joint-ventures with United States, Japanese, Hong Kong and Australian companies producing exploration and production equipment. (See Table 3.2). Those joint-ventures on Batam Island, in full or part operation by the end of 1974, included<sup>238</sup> :

- PT Chicago Bridge and Iron Indonesia, which provided construction equipment for offshore oil companies;
- PT Dresser Magcobar Indonesia, which produced drilling muds;
- PT Patra Vickers Batam, which provided heavy engineering facilities and services;
- PT Toyo Kanetsu Indonesia, which fabricated storage tanks;
- PT Purna Bina Indonesia, which provided supply, fabricating and construction facilities;
- PT Avlau Fabricators Indonesia, which provided engineering services;
- PT Kuda Laut Batam Island, which supplied foodstuffs, equipment and services.

Pertamina also owned a steel processing plant at Batu Ampar, designed to support development of Indonesia's oil industry. Built by Taisei International Corp. of Japan on a 'turn-key' basis, the Pertamina Steel Plate Processing Plant (PSPPP) began operations on the 22 June 1974. On a two hectare site with its own harbour, it had a yearly capacity of 60,000 tons, and was reportedly filling orders from the Middle-East, Singapore, Taiwan, Saipan and Indonesia by the end of 1974.<sup>239</sup>

<sup>236</sup> Interview with Abihasan Said, 27 October 1994.

<sup>237</sup> PT Pertamina Tongkang was managed by Tong Djoe. Jean Aden Bush ; Oil and Politics in Indonesia. 1945 to 1980 (PhD Thesis, Cornell University 1988), pp 407, 411.

<sup>238</sup> Compiled from the following sources. Kegiatan dan Proyek Pertamina : 1970 s/d Desember 1974 (Pertamina, Jakarta 1975), p 4. BPOPDIPB ; Laporan Tahunan 1974. Batam Island Investment Guide, p 127-130. H.W.Arndt ; "Survey of Recent Developments", Bulletin of Indonesian Economic Studies July 1974 (No.2 Vo.X), pp 26-27. Petroleum News, Vol.5 No.4 1974, p 6. Bulletin Pertamina, 28 June 1974 (No.26 Th.X). Indonesian Perspectives, December 1974, p113. Pelita, 13 August 1975. Pertamina Bulletin April 1975 (no.4 Vol.4). Current Affairs Translations, November 1974 Bulletin. According to Aden, the following joint-ventures also operated on Batam Island, but there are no other sources confirming them - PT Brown and Root Indonesia (20% Pertamina, 80% Brown and Root, USA) manufacturing offshore construction components; PT Nippon Steel Construction (Nisconi); PT Permiko Engineering and Construction; PT Pertafenikki; PT Sankyu International. Jean Bush Aden ; Oil and Politics in Indonesia. 1945 to 1980 (PhD Thesis, Cornell University 1988), p 407. Jean Bush Aden ; "Entrepreneurship and Protection in the Indonesian Oil Industry" in Ruth McVey (ed) Southeast Asian Capitalists (Cornell University, New York 1992), p92.

<sup>239</sup> Bulletin Pertamina, 28 June 1974 (No.26 Th.IX). Indonesian Newsletter, 28 June 1974 (No.17 1974). Pertamina Bulletin, July 1974 (No.7 Vol.III). Petroleum News, Vol.5 No.4 1974, p 6. Indonesian Perspectives, December 1974, p113. The PSPPP was a preparation for a shipyard. Interview with Sujatniko, 24 August 1994. The PSPPP was later listed as one of the debts unpaid due to the Pertamina Crisis, which was US\$0.4m as of 31 December 1976. Far Eastern Economic Review, 23 December 1977.

Table 3.2

**Foreign Companies on Batam Island  
(as at 1 December 1974)<sup>240</sup>**

<b>In Operation</b>		
PT McDermott Indonesia 86% McDermott - USA 14% Bob Hasan - Indonesia	USA	Offshore Steel Structure Construction
PT Dresser Magcobar Indonesia <sup>241</sup> 90% Dresser Industries Inc - USA 10% Pertamina	USA	Drilling Mud Production
PT Chicago Bridge and Iron Indonesia <sup>242</sup> 49% Chicago Bridge and Iron - USA 51% Pertamina	USA	Engineering Services Supplies
PT Patra Vickers Indonesia <sup>243</sup> 50% Vickers Ruwolt Pty Ltd - Australia 50% Pertamina	Australia	Machine repairs, Spare parts supplier
PT Kuda Laut Batam Island 50% Interagencies - Hong Kong 50% Pertamina	Hong Kong	Foodstuff Services and Supplies
Ednasa Robin Shipyard Pte Ltd Robin Lo - Singapore	Singapore	Building Contractor
Ednasa Robin Dredging Pte Ltd Robin Lo - Singapore	Singapore	Dredging Contractor
Taisei International Corporation Taisei Corporation - Japan	Japan	Building Contractor
<b>In Preparation</b>		
PT Purna Bina Indonesia Pacific Bechtel - USA Pertamina	USA	Engineering Services and Supplies
PT Avlau Fabricators Indonesia <sup>244</sup> 49% Avery Lawrence - Singapore 51% Pertamina	USA	Engineering Services and Supplies
PT Tongkat Mas Indonesia Tong Holdings - Singapore PT Masari Karya - Indonesia	Singapore	Tourism Complex
PT Toyo Kanetsu Indonesia <sup>245</sup> 35% Toyo Kanetsu KK - Japan 14% Nissho-Iwai Co. Ltd - Japan 51% Pertamina	Japan	Steel Tank Fabrication

<sup>240</sup> BPOPDIB ; Laporan Tahunan 1974 , Lampiran III & VIII. Petroleum News, Vol.6 No.2 1975, p 11. Batam Island Investment Guide (Delta Orient, Singapore 1975), pp 107-140.

<sup>241</sup> BNPT No.361 - 1971. BNPT No.314-1974.

<sup>242</sup> BNPT No.311 - 1974.

<sup>243</sup> BNPT No.274 - 1974.

<sup>244</sup> BNPT No.136 - 1977.

<sup>245</sup> BNPT No.279 - 1975.

When work began on its logistics base in 1970, Pertamina carried out most projects itself. Much of the work was pioneering - heavy equipment was brought into a harbour consisting of beached barges D-Day style, and roads were planned with a map and compass from the seat of a bulldozer.<sup>246</sup> However, from 1973, particularly as work began on the Masterplan, most of the larger projects began to be sub-contracted.

Because developments on Batam were so dominated by Pertamina, private-sector investments were few, and where they existed were closely associated with Ibnu Sutowo and Pertamina. Ibnu Sutowo made contracts, mainly for non-oil-specific construction and light engineering, available to foreign associates, and to domestic companies entering the oil service sector dependent on Pertamina for most or all of their contracts. A number of Pertamina contracts on Batam Island were awarded to associates of Ibnu Sutowo and Pertamina.

The Robin Group of Companies, run by Singaporean entrepreneur, Robin Lo, was the main Pertamina contractor.<sup>247</sup> It was alleged by critics that Lo was on close terms with both President Soeharto and Ibnu Sutowo<sup>248</sup>, to the extent that they actually owned Robin Shipyard, Robin Air and an office building in Singapore and that Robin Lo was only nominee for the companies.<sup>249</sup> There is no doubt that Robin Lo received many facilities from Pertamina through his relationship with Ibnu Sutowo - he was the main contractor for Pertamina supplies and transportation, he ran tours in Singapore for Pertamina officials, and was operating as a tanker broker for Pertamina<sup>250</sup> - and the same went for projects on Batam Island. Later it was claimed that many Lo projects were done without BIDA's knowledge.<sup>251</sup>

Ednasa Robin Shipyard (Pte) Ltd carried out construction of a port, jetty, godowns, water reservoir, water treatment plant, roads, airstrip and telecommunications building, employing over 1,800 people, two-thirds of which were Indonesians, making it the largest employer on the island.<sup>252</sup> Ednasa Robin Dredging (Pte) Ltd carried out dredging work at Sekupang and Batu Ampar, employing 58 foreigners and 217 Indonesians.<sup>253</sup>

<sup>246</sup> Interview with Abihasan Said, 27 October 1994. *Sinar Harapan*, 23 December 1983

<sup>247</sup> *Petroleum News*, vol.5 No.2 1974, p 17. *Petroleum News*, Vol.5 No.4 1974, p 6. *Petroleum News*, Vol.6 No.2 1975, p 12. *Insight*, March 1978, p 11.

<sup>248</sup> *Far Eastern Economic Review*, 2 May 1975. It was said that Lo was originally from Indonesia. Philippe Regnier ; *Singapore : City State in Southeast Asia* (S.Abdul Majeed & Co., Kuala Lumpur 1992), p 70.

<sup>249</sup> Brian May ; *The Indonesian Tragedy* (Routledge and Kegan Paul, London 1978), p 300.

<sup>250</sup> *Warta Pertamina*, January 1974 (No.8 Th.VIII). *Tempo*, 25 September 1976. *Far Eastern Economic Review*, 22 October 1976.

<sup>251</sup> *Kompas*, 28 January 1977. *Kompas*, 29 January 1977. *Progres*, February 1977.

<sup>252</sup> In 1974 it employed 1243 Indonesians and 618 foreigners. BPOPDIPB ; *Laporan Tahunan 1974*.

<sup>253</sup> BPOPDIPB ; *Laporan Tahunan 1974*. *Batam Island Investment Guide*, p 130.

Another major Pertamina contractor was PT Kurnia Dwi Putra, owned by Ibrahim Adjie, a former Commander of the Siliwangi Army Division who had been close to President Sukarno. President Soeharto, who had been known to win over dissident or potentially dissident officers by encouraging them to go into business with assistance wherever they needed licences, credits or contacts, apparently assisted Adjie in setting up the business.<sup>254</sup> Beginning operations in 1971, the company built housing, roads, a storage depot, a helipad, government offices, and a water treatment plant.<sup>255</sup> In 1974 it was employing 202 Indonesians, and enjoying a 150% increase on work over 1973.<sup>256</sup>

**Table 3.3**

**Domestic Companies on Batam Island  
(as at 1 December 1974)<sup>257</sup>**

PT Kurnia Dwi Putra Ibrahim Adjie	Contractor
Double Bell Ranch Ibnu Sutowo	Cattle Breeding
Adiguna Shipyard <sup>258</sup> 50% Pontjo Nugro Susilo 50% PT Indophing	Dockyard
PT Tunas Shipyard <sup>259</sup> 80% PT Adiguna Shipyard 20% Sofjan Kenawas	Shipyard
PT Sibasco <sup>260</sup> 80% Haji Abihasan Said 10% Haji Mohammad Zen 5% Sjaifullah 5% Nona Sririyanti	Shipping/Cargo Handling
PT Putra Batam <sup>261</sup> 30% Haji Abihasan Said 30% Nyonya Masnun 20% Abubakar Bastari 20% Haji Mohammad Zen	Contractor/Supplier

<sup>254</sup> Personal Interview, 30 September 1994. On Soeharto's strategy, see Harold Crouch ; The Army and Politics in Indonesia (Cornell University Press 1978), p 222. Harold Crouch ; "Patrimonialism and Military Rule in Indonesia" World Politics Vol.31 No.4 (July 1979), p 577.

<sup>255</sup> Batam Island Investment Guide, p 131. Petroleum News, Vol.5 No.4 1974, p 6.

<sup>256</sup> BPOPDIPB ; Laporan Tahunan 1974.

<sup>257</sup> Badan Pelaksana Otorita Pengembangan Daerah Industri Pulau Batam ; Laporan Tahunan 1974 , Lampiran III & VIII. Petroleum News, Vol.6 No.2 1975, p 11. Batam Island Investment Guide (Delta Orient, Singapore 1975), pp 107-140. Excludes Pertamina, government offices and banks.

<sup>258</sup> BNPT No.276 - 1971.

<sup>259</sup> BNPT No.275 - 1974.

<sup>260</sup> BNPT No.304 - 1975.

<sup>261</sup> BNPT No.285 - 1975.

PT Batu Batam Nusantara <sup>262</sup> 80% Abdurrani Junus 20% Tukiman Tugiono	Brick Factory
PT Elham Batam Base <sup>263</sup> 30% Abubakar Bastari 30% Haji Loth Hamid 20% Hanafie 15% Haji Mohammad Zen 5% Daniel Burhanuddin	Shipping/Cargo Handling
PT Tirta Kencana Batam <sup>264</sup> 50% Abubakar Bastari 50% Lily Rochana	Contractor/Supplier
PT Batam Mulya Makmur <sup>265</sup> 80% Mulya Jaya 10% Haji Muhammad Zen 5% Ali Niti Sastra 5% Bratanata Elya	Contractor
PT Cahaya Batam <sup>266</sup> 30% Mulya Jaya 30% Alfian Mukti 20% Mustafa 20% Ratna Eliny	Contractor
PT Karana Line Bob Hasan	Shipping
PT Teknik Umum Eddy Kowara	Electricity Contractor
PT Caputra Enterprise Ltd <sup>267</sup> Heru Pramono Nudin Hardi Oey Eng Tie	Contractor
Lim Manufacturing	Contractor
PT Pratama Raya Engineering	Machinery and Vehicle Repair
PT Natoputra Wira	Contractor/Labour Supplier
PT Pendito Batam	Contractor
PT Pan Nusantara	Fishing
PT Merlion	Furniture Supplier
PT Krisna Cakra Pura	Telecommunications Contractor
PT Kusno Ranch	Mixed Farming
PT Putra Kalimantan	Heavy Equipment Supplier
PT Pondok Batam	Restaurant

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<sup>262</sup> BNPT No.71 - 1974.

<sup>263</sup> BNPT No.550 - 1975.

<sup>264</sup> BNPT No.731 - 1975.

<sup>265</sup> BNPT No.306 - 1975.

<sup>266</sup> BNPT No.579 - 1975.

<sup>267</sup> BNPT No.282 - 1972.

Other successful contractors were those with close connections to Pertamina. BIDA Chief Executive Officer, Abihasan Said, was majority shareholder in at least two companies on Batam - PT Sibasco, a shipping and stevedoring business, and PT Putra Batam, a building contractor<sup>268</sup> - and his partners were involved in several other companies. Pertamina Head of Telecommunications, Rani Junus, owned PT Batu Batam Nusantara, a brick-making factory.<sup>269</sup> (See Table 3.3 for details of all domestic companies operating on Batam Island in 1974).

Ibnu Sutowo, and family members, owned a number of enterprises operating on Batam Island.<sup>270</sup> PT Adiguna Shipyard, which produced and repaired small sea-going craft, began operations in 1973. Robin Lo was said to have provided the technical know-how to establish Adiguna and supervision of the operation.<sup>271</sup> Another Sutowo shipyard operating on Batam was PT Tunas Shipyard, a joint venture between Adiguna and Tong Djoe (Theng Lian Joo), a Chinese businessman who had known Ibnu in Palembang during the Indonesian revolution, where he ran smuggling operations between Singapore and Palembang.<sup>272</sup> Tong Djoe jointly owned Tugu Insurance Co. with Pertamina, Head of Caltex Indonesia, Julias Tahija, and Pacific Bechtel, which insured all Pertamina shipping.<sup>273</sup> Pertamina orders were often directed towards Adiguna and Tunas, which were major suppliers to Pertamina.<sup>274</sup>

The Sutowo family-owned property-developing company, PT Masari Karya, jointly owned with Sjarnoebi Said, brother of BIDA Chief Executive Officer, Abihasan, began work on a tourist project in early 1974, which planned for a 200-room international hotel, 120 cottages, a golf course, horse-riding facilities, a dolphin aquarium, tennis courts, swimming pools and a crocodile farm.<sup>275</sup> At an estimated cost of Rp9,800 million, the tourist project, owned by PT Tongkat Mas, was a joint venture with Tong Holdings Ltd of Singapore, which was reportedly owned by Tong Djoe's Tunas Group.<sup>276</sup>

<sup>268</sup> See respectively BNPT No.304-1975 and BNPT No.285-1975.

<sup>269</sup> BNPT No.71-1974.

<sup>270</sup> According to Aden, additional Sutowo companies operating on Batam included PT Tunas Travel, a joint venture travel agency with Tong Djoe, and PT Nugra Santana, a consulting firm, but there is no evidence to verify this. Jean Bush Aden; Oil and Politics in Indonesia, 1945 to 1980 (PhD Thesis, Cornell University 1988), pp 411-412.

<sup>271</sup> Richard Robison ; Indonesia : The Rise of Capital (Allen and Unwin, Sydney 1986), pp 315, 320, 351.

<sup>272</sup> Abihasan Said ; Bumi Sriwijaya Bersimbah Darah (Yayasan Krama Yudha, Jakarta 1992), p 98. Jean Bush Aden; Oil and Politics in Indonesia, 1945 to 1980 (PhD Thesis, Cornell University 1988), pp 411.

<sup>273</sup> Richard Robison ; Indonesia : The Rise of Capital (Allen and Unwin, Sydney 1986), p 319.

<sup>274</sup> Howard Dick ; The Indonesian Inter island Shipping Industry : A Case Study in Competition and Regulation (PhD Thesis, Australian National University 1977), pp 81, 116. Richard Robison ; Indonesia : The Rise of Capital (Allen and Unwin, Sydney 1986), p 353.

<sup>275</sup> BPOPDIPB ; Laporan Tahunan 1974, p 9. New Nation, 26 July 1973. New Nation, 11 February 1974. Batam Island Investment Guide, p 115,120. Jean Aden Bush ; Oil and Politics in Indonesia, 1945 to 1980, (PhD Thesis, Cornell University 1988), p 414. On PT Masari Karya, 50% owned by Ibnu Sutowo and 50% owned by Sjarnoebi Said, see BNPT No.891 - 1973.

<sup>276</sup> Richard Robison ; Indonesia : The Rise of Capital (Allen and Unwin, Sydney 1986), pp 315, 352.

On Karimun Island, adjacent to Batam, PT Karimun Granite, a joint-venture between PT Indophing, partly-owned by Ibnu Sutowo, and a Malaysian company, operated the only granite producing quarry in Indonesia.<sup>277</sup> The quarry was the first project to become operational based on a *kontrak karya* in the mining sector. Ibnu's explanation of how he became a partner in the project is illuminating. When he learned that a contractor in Singapore needed granite, he got government permission to have it shipped from Karimun, and though he invested nothing he collected 50% of the profits. "I just arranged it".<sup>278</sup> The quarry played an important role in supporting the development of Batam island. From the beginning of operations under the *kontrak karya*, signed on 4 October 1971, up until 1975, Batam Island was Karimun Granite's main market, accounting for some 90% of production.<sup>279</sup>

Owned by Ibnu Sutowo, Batam Double Bell Ranch was raising 1,327 head of Australian cattle, specially bred for tropical conditions, on 388 hectares.<sup>280</sup> Robin Lo was involved in the project from the very beginning, developing and managing the ranch, putting up capital and paying the bills, and may well have been a shareholder.<sup>281</sup> It was conceived that the ranch, with a 16,000 head capacity, would supply Singapore with a continuous flow of cattle for the slaughterhouse in Jurong or for re-export.<sup>282</sup>

<sup>277</sup> Interview with Claude Reghezani, 30/09/1994. Sutowo's share of PT Indophing was estimated to be between 25-50%. Richard Robison ; *Indonesia : The Rise of Capital* (Allen and Unwin, Sydney 1986), pp 315, 353. The *kontrak karya* states that PT Karimun Granite was a joint venture between PT Indophing and Gammon Southeast Asia Berhad. Kontrak Karya antara Republik Indonesia dan PT Karimun. See also Indonesian Newsletter, 24 August 1972 (No.32 1972). Hendra Asmara ; "An Economic Survey of Riau", Bulletin of Indonesian Economic Studies (November 1975 (No.3 Vol.XI), p 34.

<sup>278</sup> Time, 31 August 1970, p 36.

<sup>279</sup> In 1974, it made 55 shipments to Batam Island. BPOPDIPB ; Laporan Tahunan 1974. Between 1975 and 1980, the company shipped little granite to Batam Island, its main markets being Pertamina's LNG facilities in Aceh and Kalimantan. Today, some 10% of production goes to Batam Island, the rest to Singapore. Interview with President-Director of PT Karimun Granite, Claude Reghezani, 30 September 1994. Indonesia : A survey of US business opportunities (US Dept Commerce, May 1977), p 191.

<sup>280</sup> The arrival of the cattle from Australia in 1972 was quite an event. As no quarantine had been provided, all cattle on Batam Island were bought by Pertamina, slaughtered and then given to the villagers. In that way quarantine conditions were met. When they arrived, rather than unload them in Singapore, a line of barges was set up from the shore at Sekupang to the ship. The 'cowboys' and horses rode off first, followed by 837 pregnant cows which ran off in scattered directions, many falling overboard and having to swim to shore. Interview with Abihasan Said, 16 August 1994.

<sup>281</sup> Interview with consultant to the project, John Leake, 26 April 1995. According to Robison, it was a joint venture with Robin Lo, but there was some speculation about ownership at the time. Initially Pertamina named Robin Lo as the owner, but in 1975 he claimed that he was never involved, and it was then suggested that he either relinquished ownership or retracted his name from being associated with the ranch. Head of Caltex Indonesia, Julias Tahija, was also suggested as a shareholder. Richard Robison ; Indonesia : The Rise of Capital (Allen and Unwin, Sydney 1986), p 351. Far Eastern Economic Review, 2 May 1975. One source said that CV Riau Makesa Farm was owned by Ibnu Sutowo, the director of which was Sudarsono, the Head of Immigration on Batam Island. Tempo, 13 December 1975. According to one source, the ranch was being built by Robin Lo (Batam Island Investment Guide, p 130.) and to another by PT Kurnia Dwi Putra (Petroleum News, Vol.5 No.4 1974, p 6.).

<sup>282</sup> BPOPDIPB ; Laporan Tahunan 1974, p 17. See also, Singapore Economic Bulletin, 31 October 1973, p 29. New Nation, 11 February 1974. Warta Pertamina, Pebruari 1974 (No.9 Th.VIII). Asia Research Bulletin, 28 February 1974, pp 2457-2458. Batam Island Investment Guide, p 120. Singaporean veterinary surgeons were helping in the cattle breeding project after requests for assistance were received by the Primary Production Department of Singapore's Ministry of National Development. New Nation, 13 March 1974.

The facilities developed by Ingram, including its oil-rig construction operation, had been bought in 1972 by PT McDermott Indonesia, a joint-venture involving close associate of the President, Chinese-Indonesian businessman Mohammad (Bob) Hasan.<sup>283</sup> By 1974 it employed 295 foreigners and 635 Indonesians, and had produced 37 offshore steel-structures worth approximately US\$24 million.<sup>284</sup> When Bob Hasan took control of the operation, the relationship with Pertamina became strained because numerous facilities were given to the operation in the belief that it was a Pertamina joint-venture but which had become without notice a Bob Hasan joint-venture.<sup>285</sup> Another Bob Hasan company also operated on Batam, the shipping operation, PT Karana Lines.

In 1973, government offices included customs, immigration, quarantine, airport, and manpower, with the addition of telecommunications and police in 1974.<sup>286</sup> There were two government banks by the end of 1974 - Bank Dagang Negara at Sekupang had 120 account holders (93 in Batu Ampar and 27 in Sekupang), and Bank Bumi Daya which opened at Sekupang in June 1974 had 35 account holders.<sup>287</sup>

There was considerable discussion over the appropriateness of Batam Island as a location for a wood processing industry. In mid-1973 the Director-General of Forestry, Soedjarwo SH, visited Batam Island to look at the possibility of building a wood business for Batam's needs and for export, and in early 1974 about ten Indonesian and Singaporean investors undertook a survey in cooperation with the Directorate for the possibility of setting up sawmills and plywood factories at Tanjung Uncak.<sup>288</sup> At least two domestic plywood manufacturers were expected to begin construction there by the beginning of 1975.<sup>289</sup>

Ibnu Sutowo soon began inviting other Southeast Asian countries to participate in Batam's development, as a symbol of ASEAN self-reliance in the post-Indochina period. Official, investigative and promotional visits were a constant feature on Batam Island - some 8,000 visitors came via Singapore in 1974.<sup>290</sup> They included visits by

<sup>283</sup> Interview with Ibnu Sutowo, 23 August 1994. At a cost of only US\$4.1 million, the operation apparently made US\$5 million profit in the first year. Interview with former manager, Machnun Kamaluddin, 19 November 1994.

<sup>284</sup> In 1974, Production value was Rp9.715.252.434,85. BPOPDIPB ; Laporan Tahunan 1974. Batam Island Investment Guide, p 115.

<sup>285</sup> Interview with Machnun Kamaluddin, 19 November 1994. Interview with Abihasan Said, 27 October 1994.

<sup>286</sup> BPOPDIPB ; Laporan Tahunan 1974. Batam Island was even used by the Department of Commerce for the re-export of luxury cars that had illegally entered Indonesia. Angkatan Bersenjata, 13 February 1975.

<sup>287</sup> Batam Island Investment Guide, p 131.

<sup>288</sup> He visited on 12 April 1973. Bulletin Pertamina, 18 May 1973 (No.20 Th.IX). BPOPDIPB ; Laporan Tahunan 1974, p 17. Batam Island Investment Guide, p 120.

<sup>289</sup> Hendra Asmara ; "An Economic Survey of Riau", Bulletin of Indonesian Economic Studies (November 1975 (No.3 Vol.XI), p 36.

<sup>290</sup> Visitors via Singapore numbered 6,000 in 1973. BPOPDIPB ; Laporan Tahunan 1974.

various Indonesian Ministers, members of the DPR, foreign businessmen, journalists, staff from the Indonesian embassy in Singapore and various Singapore-based Ambassadors, and top Singaporean officials.<sup>291</sup>

The Batam project was being billed by Ibnu Sutowo as vital to the future of all members of ASEAN and the rest of Asia, as it would fulfil the need for a logistic base which could support the entire oil exploration activities of Malaysia, the Philippines, Thailand, Burma and Indonesia. In a speech given in Singapore in December 1974, Ibnu articulated his thoughts on Batam Island's future role in Southeast Asia.

In this context I think it is complementary if I reveal our ideas and planning on the island of Batam.

Batam Island is twelve miles south of Singapore. The fact that it is sparsely inhabited and, therefore, has only minimum infrastructure at the present time will in turn be made into an advantage. If you have visited the Gulf Coast of the United States where the first major offshore fields were developed commencing in the late 1950's, you will know that the offshore petroleum support facilities stretch along a ninety mile area. Huge tracts of land are needed for these facilities and this will be the strength of Batam, coupled with its location and close proximity to the commercial, communication and transportation facilities of Singapore. Batam is not intended as competition to Singapore, but rather as a vast area for the industrial development needed for the further growth of petroleum industry in this region. In this regard Batam is complementary to Singapore.

Our eventual goal is to lower the cost of producing petroleum. It is critical for the proper exploration and development of oil fields that materials be "on-hand, on-time". In this regard we can no longer solely rely on logistics facilities located outside of Southeast Asia. Singapore no longer has large amounts of land nor the number of workers which is necessary. Therefore, we are proposing Batam as a logistics facility for all of Southeast Asia. There will, of course, be smaller support bases spread throughout this region, however, none of these bases, for various technical and economic reasons, offer the potential for expansion which is presented by Batam. The invitation for development of Batam is open to all and we do hope delegates here today will be among those participating.

I point out to the development of Batam only to emphasise that, in order to develop a strong Southeast Asia oil industry, which represents an alternative choice for consuming developed

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<sup>291</sup> Interview with Abihasan Said, 27 October 1994. On Ministerial and DPR visits see Tempo, 20 October 1973. In November 1973, a group of Australian oil consultants visited. Current Affairs Translations, November 1973 Bulletin. Journalists visited on 11 January 1974. Pertamina Bulletin, February 1974 (No.2 Vol.III). On 29 April 1973 the Ambassadors of Thailand and the Philippines visited. Bulletin Pertamina, 1 June 1973 (No.22 Th.IX). Singaporean visitors included the chief of police and various secretaries. Bulletin Pertamina, 1 June 1973 (No.22 Th.IX).

nations, we in this area must develop our own self-sufficiency so that we in turn can contribute towards the solution of the world energy problems.<sup>292</sup>

There were good reasons for Ibnu Sutowo to be optimistic about Batam's future. By most accounts, the Batam Island project was both impressive and successful. During 1974, there were five new foreign investors, making a total of twelve, and 14 new domestic entrants, making a total of 24. By the end of 1974, there were over 6,000 workers employed in various capacities, 1,000 of which were foreign workers, mainly from Singapore; visitors numbered around 8,000 a year; ships calls numbered over 2,000 a year; and the value of goods leaving Batam Island's harbours for 1974 had reached Rp20.257.875.621,45.<sup>293</sup>

The optimism, however, was to be short-lived. By the end of 1975, development of Batam Island along the lines outlined in the Masterplan had been more or less indefinitely postponed. The origins of the downturn lie in political developments in Indonesia during 1974, compounded with external factors and problems unforeseen in the Masterplan - worldwide recession and inflation, an energy crisis due to a rise in oil prices on the international market and continued controversy over the future of the Straits of Malacca - and finally the mounting financial crisis within Pertamina.

### A Dream turns Sour

Much of Batam Island's growth had up until 1975 been due to the attractiveness of the project, the increased importance of the Straits of Malacca as a major international shipping lane, the widening search for oil in surrounding waters, as well as rising regional and world demand for petroleum products. However, by early 1975, Batam Island's development was facing problems.

There were two main and inter-related reasons, and they were not removed from developments at the national level. The first was a direct result of the recession in industrialised countries in 1974 and 1975 which resulted in reduced exports of oil and a decline in petroleum industry activity. The second was a result of the financial crisis in Pertamina. As with many Indonesian government and Pertamina projects at the time, a worldwide shortage of credit and skyrocketing capital-goods prices cast considerable doubt upon the future of the Batam Island project.

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<sup>292</sup>Ibnu Sutowo ; Indonesia's Experience and Example , (speech at Pacific Basin Energy Conference) Singapore, 10/12/1974, in Petroleum News, Vol.5 no.9 1974, pp 16-17. Reports also in Berita Yudha, 12 December 1974 and 22 January 1975. Progres, December 1974. Bulletin Pertamina, 20 December 1974 (No.51 Th.X). Pertamina Bulletin, January 1975 (No.1 Vol.V). See also Ibnu Sutowo ; Strategi Minyak dan Gas Bumi dan Transfer of Technology (Pertamina, Jakarta 1975), especially pp 22-23.

<sup>293</sup>BPOPDIPB ; Laporan Tahunan 1974.

### **The Postponement of the Batam Project**

The first indication that there were problems on Batam Island was the fact that no agreement had been reached between the Indonesian government and private investors on the building of the oil refinery complex, the key project in the Batam Masterplan. The three oil refinery submissions were still under negotiation at the end of 1974, but by the middle of 1975 it was apparent that plans for the refinery complex had been scrapped altogether.<sup>294</sup>

The main reason for the failure of the refinery complex to materialise was a slump in the international oil business, combined with waning Japanese interest because of huge oil price increases. Japanese domestic consumption of oil had fallen considerably following the international oil price hikes in 1973-1974, and this severely reduced the desire of Japanese oil companies to invest overseas. In fact as early as 1973, a Japanese government report considered that a petro-chemical industrial centre in Indonesia was not a highly profitable undertaking because of the slump in the world petro-chemical industry, and that Indonesia could only hope for such an industrial centre to break even in the long term.<sup>295</sup>

According to Julias Tahija, Head of Caltex Indonesia which had put forward one of the three submissions to build a refinery on Batam, by mid-1974 the Batam Island project based on refining Middle-East crude for shipment to Japan was no longer attractive because the huge increase in world oil prices placed a premium on crude purchases rather than higher-priced refined products.<sup>296</sup> Even Singapore's big refineries were not operating at full capacity because of reduced demand for oil.<sup>297</sup>

For Japan, the decision was clear-cut - it had to choose between continuing to import crude or to refine and process on Batam Island. The Batam Island oil refineries were to process Middle-Eastern crude for export to Japan, which was initially thought feasible because of Japan's desire to locate highly pollutant industries in other countries - Middle-Eastern crude has a high sulphur content as opposed to the low-sulphur Indonesian crude which is shipped to Japan for refining.<sup>298</sup> However, the huge increase in oil prices, combined with the continuation of a price dispute between Pertamina and Saudi Arabian oil suppliers, mean that the Batam refineries were no longer viable, and

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<sup>294</sup> Phyllis Rosendale ; "Survey of Recent Developments' in Bulletin of Indonesian Economic Studies, November 1974 (Vol.X No.3), p 21.

<sup>295</sup> International Development Centre of Japan ; Study of Economic Development of Indonesia (March 1973), pp 54-55.

<sup>296</sup> Kompas, 23 May 1973. Wayne Robinson ; The Politics of Japanese-Indonesian Energy Cooperation, with particular reference to the period 1972-76 (PhD Thesis, Monash University 1980), p 328 f.14.

<sup>297</sup> Far Eastern Economic Review, 2 May 1975.

<sup>298</sup> Far Eastern Economic Review, 2 May 1975.

Japan switched attention again to securing large quantities of crude oil for refining at home.<sup>299</sup>

The decision was further augmented by recent accidents involving large tankers in the Malacca Straits.<sup>300</sup> Traffic and oil spills in the Malacca Straits had become a real problem. With overcrowding in the Straits and the danger the shallow waters posed to supertankers, the Indonesian government was campaigning to channel crude oil traffic through the Sunda or Lombok Straits.<sup>301</sup> These moves cast serious doubts about Batam Island's future for, since Batam Island's refinery complex envisioned the use of 200,000-ton super-tankers, its operation would be placed in jeopardy if traffic were discouraged in the Malacca Straits. In fact, Nissho-Iwai, the Japanese backers of one of the Batam oil refineries, was showing more enthusiasm for plans to build a refinery in Palau or on Lombok Island.<sup>302</sup>

With the huge oil price increases of 1974-1975, Japan switched attention again to securing large quantities of crude oil for refining at home, and the Japanese submissions from Nissho-Iwai and Mitsubishi to build refineries were withdrawn. Unable to regulate Japan's economic priorities, Indonesia scrapped plans for the oil refineries on Batam. Further, in the wake of the nationalist Malari riots, Indonesia was also less interested in the refinery complex because it was mainly to handle Middle-Eastern rather than Indonesian crude. Whilst Minister for Mines, Mohammad Sadli, would not cancel out the possibility of building an oil refinery on Batam Island, a spokesman for Pertamina's Liaison Office in Singapore, Drs Sumarno Dipodisastro, admitted that the refinery was,

...no longer in the picture...There is now no key project on Batam, and we are not following the Masterplan's suggestion that the refinery be the focal point of development.<sup>303</sup>

On the industrial estate, the more-than-half-a-dozen foreign companies engaged in oil-related activities, continued to make good progress. Southeast Asian oil exploration

<sup>299</sup> Petroleum News, Vol.6 No.2 1975, p 11. Japan soon switched from Indonesian to Chinese oil - by 1976, only 43.4% of Indonesian crude exports went to Japan, down from 71.4% in 1973. Wayne Robinson ; "Imperialism, Dependency and Peripheral Industrialisation : The Case of Japan in Indonesia" in Richard Robison & R.Higgott (eds), Southeast Asia : Essays in the Political Economy of Structural Change (Routledge, London 1985), p 208.

<sup>300</sup> Far Eastern Economic Review, 30 May 1975, p 54.

<sup>301</sup> Petroleum News, Vol.6 No.2 1975, p 11. Ibnu Sutowo apparently saw the Lombok proposal as a competing alternative to the Batam project. Wayne Robinson ; The Politics of Japanese-Indonesian Energy Cooperation, with particular reference to the period 1972-76 (PhD Thesis, Monash University 1980), p 328 f.14. The Batam project was also to be closely integrated with another project at Semangka, Lampung where Nissho-Iwai, Pacific Bechtel and Pertamina planned to build an oil base project to store ten million tons of crude oil, at a cost of US\$250m. Tempo, 22 November 1975.

<sup>302</sup> Far Eastern Economic Review, 2 May 1975. For details of the Lombok oil proposal, see Wayne Robinson ; The Politics of Japanese-Indonesian Energy Cooperation, with particular reference to the period 1972-76 (PhD Thesis, Monash University 1980), pp 322-331.

<sup>303</sup> Far Eastern Economic Review, 2 May 1975. Kompas, 26 September 1975.

had been increasing, so demand for offshore steel structures, equipment, supply vessels, and other services was enough to ensure continuing business for those already established on Batam Island. For example, PT Dresser Magcobar's factory was working at full capacity producing oil drilling muds worth around US\$5m in 1974, of which 80% was delivered to the nearby Java Sea oil fields, while PT McDermott was to fill Indonesia's potential market for offshore drilling rigs, estimated to be US\$25 million a year or an annual average of 10 new rigs.<sup>304</sup>

However, the slump in the international oil business did have the effect of scaring off any new entrants into the Indonesian oil services sector. Furthermore, as the refinery complex had aimed to attract service industries and promote a positive industrial climate on the island, many facilities which depended on the refineries were either postponed or shelved indefinitely.<sup>305</sup> Recently-formed foreign joint ventures, PT Toyo Kanetsu, PT Avlau and PT Purna Bina, which had all been granted their licences, delayed construction because their investments were designed to support the refinery facilities.<sup>306</sup>

The free trade zone, too, had difficulty in attracting foreign or domestic investment at a time of worldwide recession.<sup>307</sup> Private sector investment in the free trade zone was disappointing. At the end of 1974 there was only a brick factory, run by a domestic company, PT Batu Batam Nusantara, which had a capacity of 40,000 bricks a day. Aside from some interest shown by Singaporean plywood factories and sawmills, there was no further visible development of the zone.<sup>308</sup>

A further factor affecting investment on Batam was the domestic political situation in Indonesia during and following the Malari riots in January 1974. Directed at 'neo-colonialism' and foreign exploitation of the Indonesian economy, the assertion of nationalist sentiment and interventionist economic strategies resulted in the imposition of restrictions on foreign investment. These restrictions had the effect of severely reducing the attraction of Indonesia, and Batam, as a location for investment, and contributed to a sharp retreat by foreign investors.

Proximity to Singapore also had an effect on new investment on Batam. Major attempts by the Batam authorities to woo foreign investors could have been construed

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<sup>304</sup> Far Eastern Economic Review, 2 May 1975. Petroleum News, Vol.6 No.2 1975, p 11. Batam Island Investment Guide, p 130

<sup>305</sup> Far Eastern Economic Review, 2 May 1975.

<sup>306</sup> Petroleum News, Vol.6 No.2 1975, p 11.

<sup>307</sup> Far Eastern Economic Review, 02/05/1975.

<sup>308</sup> Petroleum News, Vol.6 No.2 1975, p 12. Far Eastern Economic Review, 2 May 1975. Kompas, 26 September 1975.

as a threat to the Singapore economy, and open rivalry between the two islands would have endangered Batam's chances of success because of its heavy reliance on free access to Singapore's facilities and markets, particularly the supply of skilled labour and raw materials.<sup>309</sup> Since Batam Island's success depended, in great part, on Singapore, BIDA did not embark on any kind of 'hard sell' campaign to push Batam Island towards foreign investors.

The second major reason for the problems on Batam Island was the financial crisis within Pertamina. Pertamina had long been criticised for being a 'state within a state', and it soon became apparent that it had been overzealous in its pursuit of development. In June 1975, it was officially announced that as of March 1975 Pertamina owed US\$3.1 billion in foreign loans and overdue oil-revenue payments to the government, as well as US\$113 million overdue to local contractors. The causes and reasons given were many - because of bad financial management; because of unfavourable world financial and economic conditions; and because of differences in points of view between Ibnu Sutowo and Indonesia's top technocrats about the best ways to achieve development and to control Pertamina - yet essentially the problem stemmed from Pertamina's heavy reliance on short-term borrowings to finance long-term projects.

Pertamina had pursued this policy because of restrictions that in effect forced it to seek government, that is the technocrats', approval for long-term loans but seemed to include a loophole for short-term borrowings.<sup>310</sup> Minister for Mines, Mohammad Sadli, later explained the situation to the DPR :

It is true that the Government knew of, and moreover agreed to, various non-oil ventures being carried on by Pertamina. But the agreement of the Government was given to enable the enterprise to better carry out its main activities, and the raising of further financial resources was not to be allowed to become a strain on the company, let alone on the Government. The Government agreed to Pertamina's non-oil development activities so as to take advantage of Pertamina's potential and the confidence that is held in Pertamina in the business world - especially the business world - in order to attract overseas capital to Indonesia...

However, without the knowledge or agreement of the Government, Pertamina took on large and heavy financial commitments to finance business ventures...the majority of which were not economically justifiable nor directly connected with Pertamina's main activities...<sup>311</sup>

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<sup>309</sup> Far Eastern Economic Review, 2 May 1975. Petroleum News, Vol.6 No.2 1975, p 12. See remarks made by Abihasan Said in New Nation, 11 February 1974.

<sup>310</sup> Sevinc Carlson ; Indonesia's Oil (Westview Press, Boulder 1977), p 65. Far Eastern Economic Review, 28 March 1975.

<sup>311</sup> For Sadli's full statement to parliament on 20 May 1976, see Sinar Harapan, 21,22,24 May 1976.

Special projects, related or unrelated to petroleum, appear to have been Pertamina's nemesis. Whilst it was clear that the initial development of Batam Island was funded from income received from the production-sharing agreements, the implementation of the Master Plan was to be funded with short-term loans.<sup>312</sup> Ibnu Sutowo told an Indonesian newspaper that the real trouble was the failure of a major long-term loan to come through.

The problem was that in 1974 we made an agreement for a twenty-year loan. The total involved was \$1.7 billion. We regarded the loan as secured - the loan agreement had already been signed. Because the money had to be taken in a lump sum - this was part of the agreement - we took steps to use the funds to initiate projects, including Krakatau Steel and Batam Island. We obtained short-term loans which were essentially bridging finance. Well, the long-term credit did not come, and that was the problem. I still don't understand why the loan disappeared, just like that.<sup>313</sup>

It is clear that Batam Island's development was financed through ad hoc short and medium term loans, and it was also closely related to the purchase of oil tankers. The Batam Island plan was linked to other oil-related facilities in the Indonesian archipelago - the Cilicap refinery, Lombok storage facilities and the tankers. The idea was to integrate Pertamina's facilities and tanker fleet into the Middle East-Indonesia-Japan oil trade, with immense military/strategic and financial implications. Indonesia would require Middle Eastern supplies of oil to Indonesia and Japan to ship 50% of oil passing through the facilities on Indonesia-flag tankers. Preliminary discussions of the plan had been held in 1974-75 by Ibnu Sutowo and Mohammad Sadli with Kuwaiti and Japanese officials.<sup>314</sup>

Pertamina's financial crisis was to have a massive impact on Batam. Under the Masterplan, over half of the total capital outlay would be required in 1975/76, and it was exactly at this time that Pertamina experienced financial problems. In August 1975, after several months of reports that the Batam project was being trimmed back, BIDA Chief Executive Officer, Abihasan Said, finally admitted to Jakarta journalists that there had been a slowdown with some projects because of a lack of funds.<sup>315</sup> Construction of roads, sewerage systems, water reservoir, port facilities and other long-term facilities/projects outlined in the Masterplan had already been delayed due to Pertamina's difficulty in paying contractors.<sup>316</sup> When Pertamina Director of Finance,

<sup>312</sup> Mara Karma ; Ibnu Sutowo (PT Gunung Agung, Jakarta 1979), p 255.

<sup>313</sup> Tempo, 17 January 1976 in Peter McCawley ; "Consequences of the Pertamina Crisis" Journal of Southeast Asian Studies, March 1978 (Vol.IX No.1), p 14.

<sup>314</sup> Jean Bush Aden ; Oil and Politics in Indonesia, 1945 to 1980, p 419.

<sup>315</sup> Bulletin Pertamina, 15 August 1975 (No.35 Th.XI). Pelita, 13 August 1975.

<sup>316</sup> Far Eastern Economic Review, 2 May 1975. Tempo, 22 November 1975.

Haji Taher, finally withheld all funds, Pertamina's operations on Batam, and that of its contractors, effectively stopped altogether.<sup>317</sup>

As the Pertamina crisis unfolded, Pertamina officials, under considerable pressure, began distancing Pertamina from the Batam Island project. Ibnu Sutowo, himself, had long tried to explain that Pertamina was not a part of BIDA but merely one of the companies which were using Batam as a place for operations.<sup>318</sup> In 1975, Pertamina's Liaison Officer in Singapore, Dr Sumarno Dipodisastro, attempted to clarify Pertamina's actual role in the development of Batam Island, in effect distancing Pertamina from the project, saying that it was not under the ownership and directorship of Pertamina, but was an Indonesian government project.<sup>319</sup> It was a difficult argument to make. Pertamina was in effect the Batam Authority. BIDA was staffed with Pertamina employees and both BIDA and Pertamina were headed by the same person, Ibnu Sutowo.

Against a chorus of critical press comment, Pertamina published an investment guide to Batam Island in which the introduction claimed that it was neither a Pertamina project nor entirely dependent on Pertamina's financial condition and without government support. According to the guide,

Recently an exaggerated financial problem facing Pertamina, which was cynically reported by correspondents who pretended to be authorities on Pertamina or the Batam project, has provided strong grounds for those who had already passed their verdict from the start that the Batam project is a mere dream.<sup>320</sup>

There were good reasons for being defensive, for as the Pertamina crisis unfolded, Pertamina's critics quickly moved onto the offensive. Many questioned whether the Batam Island project had gone the way of many a third-world development project - plagued by inefficiency, bureaucracy, weak infrastructure, and insufficient investment.<sup>321</sup> Batam Mayor Usman later reflected that,

At first, when development began, Batam was like a Cowboy range. No one complied with the regulations layed down by the government.<sup>322</sup>

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<sup>317</sup> Interview with Dr Sanger, 20 November 1994.

<sup>318</sup> Bulletin Pertamina, 28 June 1974 (No.26 Th.X).

<sup>319</sup> Petroleum News, Vol.6 No.4 1975, p 3.

<sup>320</sup> The introduction to the book announced that its aim was to disseminate correct information, and contribute to the promotion of investment in response to reported financial difficulties. Batam Island Investment Guide. (Delta Orient Private Ltd, Singapore 1975), p3.

<sup>321</sup> Petroleum News, Vol.6 No.2 1975, p 12.

<sup>322</sup> Suara Karya, 3 March 1986.

Indeed, some considered that Batam Island had been over-ambitiously extended into a demonstration project, accompanied by a massive investment program by Pertamina.<sup>323</sup> Many of the investments were said to be fronts, to demonstrate support of Pertamina and the development of the Indonesian oil industry. Pertamina's Steel Plate Processing Plant was apparently built to show evidence of Japanese steel company investment in Indonesia, and the operations at Kabil of a foreign joint venture was simply for show.<sup>324</sup> The left-wing scholar, Malcolm Caldwell, claimed that,

The Batam project has been set up as a 'confrontation with industrial giant Singapore', is completely focused on foreign trade, and is hardly concerned with national economic development.<sup>325</sup>

Others criticised the Batam project for its lack of actual development, and for being a 'playground' for Pertamina.<sup>326</sup> It was certainly well known that Pertamina threw money around, what Ibnu Sutowo called 'just shooting', and there is no doubt that many of his most trusted staff abused his trust.<sup>327</sup> However, whilst it is clear that there were favoured clients, and somewhat dubious contracts signed, it is unclear to what extent private profiteering was being carried out on Batam Island.

At the same time, however, there were questions as to whether the government was willing to devote substantial funds to the development of a near-barren island when the needs of Indonesia as a whole remained so large, for problems did arise from a lack of infrastructure and from weak government administration.<sup>328</sup> It can certainly be questioned whether BIDA commanded sufficient resources to create the necessary infrastructure and attract investment, in addition to overcoming other problems such as the great distance from Jakarta and bureaucratic regulations.<sup>329</sup> There is no doubt that BIDA experienced trouble in having funds guaranteed and in preparing annual budget projections, for funding was provided on an ad hoc basis.<sup>330</sup>

At a local level, the project had made little direct impact on the rest of Riau province, and was unlikely to in the near future.<sup>331</sup> The relocation of local people for industrial projects posed some problems - in 1974, 2000 hectares of land were appropriated,

<sup>323</sup> Khong Cho Oon ; The Politics of Oil in Indonesia : Foreign Company-Host Government Relations, (Cambridge University Press, Cambridge 1986) , p 167.

<sup>324</sup> Personal Interview with Contractor, 27 October 1994.

<sup>325</sup> Malcolm Caldwell (ed) ; Ten Years Military Terror in Indonesia, (Spokesman Books, 1975), p 49.

<sup>326</sup> Far Eastern Economic Review, 20 April 1979. Sinar Harapan, 20 April 1981.

<sup>327</sup> Interview with Hernomo, 22 August 1994. Interview with Wijarso, 3 November 1994.

<sup>328</sup> Kompas, 14 July 1973. Philippe Regnier ; Singapore : City-State in South-East Asia (S.Abdul Majeed & Co., Kuala Lumpur 1992), p76.

<sup>329</sup> Sinar Harapan, 20 April 1981.

<sup>330</sup> BPOPDIPB ; Laporan Tahunan 1974.

<sup>331</sup> Hendra Asmara ; "An economic Survey of Riau" Bulletin of Indonesian Economic Studies, November 1975 (No.3 Vol.XI), p 38.

requiring relocating occupants and providing compensation<sup>332</sup> - and there were instances of people being driven from their land without adequate compensation to make way for Pertamina projects, indicating that the development of Batam Island was not all smooth going.<sup>333</sup>

The government finally announced on 25 September 1975 that there had been a 'slow down' in the development of Batam Island as a direct result of Pertamina's financial difficulties. The DPR-Komisi VI reported that all infrastructure projects had stopped, workers retrenched or laid-off, and heavy equipment and machinery abandoned.<sup>334</sup> By the end of 1975, the development of Batam Island had been more or less indefinitely postponed.<sup>335</sup> Minister for Mines, Mohammad Sadli, clarified that the government still viewed the project as basically sound, but that the government intended to cut back its participation and encourage greater investment by private firms.

It is clear that Pertamina can now no longer invest the large amount of funds needed to complete the [Batam] project, so we shall see to what degree the private sector is able to play a bigger role in completing the project.<sup>336</sup>

Clearly there were two main and inter-related reasons for the problems on Batam Island, and they were not removed from developments at the national level. The first was the recession in industrialised countries in 1974 and 1975 which resulted in reduced exports of oil and a decline in petroleum industry activity. The second was the financial crisis within Pertamina. The days when the government could short-cut the development process by loading projects onto Pertamina, which had a reputation for getting things done, had come to a close.

When the Indonesian government began to audit the operations of Pertamina, and eventually take over its non-oil activities, the Batam development plan was to come under intense scrutiny. Quite clearly more aspects of the ultimate Batam were on drawing board than on ground, so it appeared to be a prime candidate for cancellation.

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<sup>332</sup> BPOPDIPB ; Laporan Tahunan 1974, p4.

<sup>333</sup> Anthony Goldstone ; "What was the Pertamina crisis?" Southeast Asian Affairs 1977 (ISEAS 1977), p 127. The author met victims of these policies on Batam.

<sup>334</sup> Departemen Penerangan ; Penjelasan Pemerintah kepada Komisi VI-RI : Masalah Pertambangan dan Penanaman Modal (Jakarta, September 1975).

<sup>335</sup> Interview with member of Pertamina investigation team, Hasnan Habib, 1 August 94. Far Eastern Economic Review, 16 January 1976, p 106. Khong Cho Oon ; The Politics of Oil in Indonesia : Foreign Company-Host Government Relations, (Cambridge University Press, Cambridge 1986) , p 167. A US Embassy report put Batam Island's status as "scaled down", and that capital would have to come from the private sector. US Embassy, Jakarta ; Indonesia's Petroleum Sector (June 1976). Ref : Jakarta A-105.

<sup>336</sup> Kompas, 26 September 1975. Merdeka, 27 September 1975.

### **The Government takes over the Batam Project**

In June 1975, President Soeharto appointed a committee to look into the financial standing and structure of Pertamina, the Bank of Indonesia having already taken over management of Pertamina debts when it had failed to make loan payments. Presidential Decree No.11 1975 created a technical team to look at Pertamina's non-oil related projects, financial affairs, and to re-negotiate contracts. Headed by army generals, Piet Haryono and Hasnan Habib, and technocrat, Dr Sumarlin, it began to scrutinise the state oil corporation. The committee surveyed all of Pertamina's actions, practices, dealings, contracts and finances, and it became clear that the giant company had been mismanaged and overexpanded, and from that time on Pertamina activities and projects began to be curtailed.<sup>337</sup> The main recommendations of the committee were to create two working-groups, one to look at tankers, headed by Radius Prawiro, and the other to renegotiate loans, headed by Sumarlin.<sup>338</sup>

The options for all Pertamina non-oil projects under reconsideration were : implementation as planned, a reduction in magnitude, reorganisation and modification, a slowdown in development, transfer to another agency, or cancellation.<sup>339</sup> Under these conditions, one could not have been optimistic about the keenness of the government in committing itself to the Batam project and Masterplan. The Batam scheme was regarded as a prime candidate for cuts in scale, and there was speculation that the role of the island would be confined to just a logistic base for oil exploration as was originally intended.<sup>340</sup>

Government investigation into the Batam project began in July when the Ministers for Defence, Mining, Commerce and State Administration, as well as the DPR Commission VI, visited Batam Island.<sup>341</sup> Minister of State for Administrative Reforms and Vice-Chairman of Bappenas, Dr J.B.Sumarlin, was charged with making an inventory of developments on Batam Island. He was troubled by the systems of administration and accounting used, and the reorganisation of the administrative and financial systems was to take some time.<sup>342</sup> Sumarlin's first priority, however, was to re-evaluate the value or worth of all projects - finished, half-finished or just begun - and to re-negotiate all of Pertamina's contracts.

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<sup>337</sup> Leo Suryadinata ; "Indonesia in 1976 : A year of challenge" , *Southeast Asian Affairs 1977* , (ISEAS 1977).

<sup>338</sup> Interview with Hasnan Habib, 1 August 1994.

<sup>339</sup> *Far Eastern Economic Review*, 2 May 1975. *Tempo*, 22 November 1975.

<sup>340</sup> *Far Eastern Economic Review*, 2 May 1975.

<sup>341</sup> *Pelita*, 13 August 1975. Soeharto had already sent Lieutenant-General Kosasih, former Siliwangi Commander who had served in KNIL with Soeharto in 1940-41, to Batam. He reported about developments on Batam to Soeharto on 14 April 1975. *Current Affairs Translations*, April 1975 Bulletin.

<sup>342</sup> *Sinar Harapan*, 21 April 1981.

Officials from Jakarta claimed that many of Pertamina's contracts were grossly over-costed, and sought to re-write or re-negotiate contracts in order to reduce costs.<sup>343</sup> Contractors, both foreign and domestic, were informed in September 1975 that all projects were frozen until investigatory teams had determined which were to be continued.<sup>344</sup> Most contractors were unenthusiastic with the alternatives - reduce costs quoted in contracts, reschedule debts owed to them or have their contracts renewed - but the offer was not so unreasonable considering many had done well out of Pertamina in the past. Sumarlin stressed that many "had greatly profited from their association with Pertamina".<sup>345</sup> Indeed, it was widely felt in official circles that many of the companies had won the contracts as favours, or through other means, such as where "contractors were selected before tenders were called and official contract prices exaggerated".<sup>346</sup>

Initially, most projects were simply reconsidered or delayed as contracts were renegotiated and projects restudied. However, after investigation, several projects were cancelled and the rest "continued with modification in design and scope."<sup>347</sup> By the middle of 1976, major Singaporean and Indonesian firms responsible on Batam had pulled out because of either uncertainty about Batam Island's future or because their contracts had been cancelled. Facing a reduction in contract costs of 30%, some 8 foreign and domestic contractors left Batam Island following the renegotiations.<sup>348</sup> Major contractors on Batam Island in fact abandoned half-completed turn-key projects, leaving behind expensive equipment for scrap.<sup>349</sup>

The major contractor to leave was Robin Lo. It was reported that after rejecting Sumarlin's demands to cut his costs by 30%, and then being told his contracts had been cancelled, Lo packed up and departed Batam, leaving behind several unfinished projects, and taking as much of his equipment from the island as was feasible.<sup>350</sup> One family member put it,

On Batam we had a turn-key project, but they ran out of money, so we left.<sup>351</sup>

<sup>343</sup> Far Eastern Economic Review, 20 April 1979.

<sup>344</sup> Kompas, 23 September 1975.

<sup>345</sup> Kompas, 23 September 1975.

<sup>346</sup> Far Eastern Economic Review, 23 December 1977. Richard Robison ; *Indonesia : The Rise of Capital* (Allen and Unwin, Sydney 1986), p 256. Many projects were either only half-finished or not worth what was based on the contract. Progres, February 1977. It was even reported that contracts were signed on the bonnets of Rolls-Royces. Kompas, 28 January 1977.

<sup>347</sup> Kompas, 29 January 1977. New Nation, 1 March 1977. Sinar Harapan, 20 April 1981. For Indonesian contractors problems and complaints see Tempo, 22 November 1975, pp 47-51.

<sup>348</sup> Far Eastern Economic Review, 23 December 1977.

<sup>349</sup> Singapore Economic Bulletin, March 1976. Far Eastern Economic Review, 20 April 1979.

<sup>350</sup> Far Eastern Economic Review, 23 December 1977. Robin Lo was also accused of using second-hand goods and materials, many of them ex-Vietnam War. Kompas, 29 January 1977.

<sup>351</sup> Insight, March 1978, p 11.

For instance, Lo had been paid US\$3.7m out of US\$5.5m to build the Sungai Harapan Water Reservoir at Sekupang, but only parts had been finished.<sup>352</sup> Lo had also been paid US\$13.5 million out of an unfinished US\$38 million road project.<sup>353</sup> Problems further compounded when some 1,200 labourers demanded compensation from Sumarlin because Lo's work had been stopped. According to Sumarlin, an agreement had been reached and it was Lo's business that had not paid the workers.<sup>354</sup> Lo was estimated to have lost 25% of his fortune in the Pertamina debacle.<sup>355</sup>

The Nongsa Beach Hotel, or more specifically its foundations and work site, was littered with building materials, abandoned by PT Tongkat Mas.<sup>356</sup> Dozens of other projects were also cancelled or abandoned such as a Marine Merchant School, and a Fishery Research Centre - built by Lo, it was an unused modern laboratory with broken doors and windows and missing equipment, vandalised because of lack of BIDA personnel for security.<sup>357</sup> Many of the abandoned facilities were hobby activities and 'playgrounds' of Singapore contractors and others.<sup>358</sup>

Ibnu Sutowo's cattle ranch had failed due to several factors - a ban on Indonesian cattle in Singapore due to an outbreak of foot and mouth disease in Indonesia<sup>359</sup>, and because overall it was not economically feasible.<sup>360</sup> Cattle lived in pasture prepared especially, complemented with imported concentrates, but the pasture was not economical for the expected product of meat. Consultants to the project had suggested a feedlot, but it appears that it was not considered economically feasible, and was not attempted. However, it is doubtful whether the project would have ever been a success, even as a feedlot. The area was short of fresh water and suitable feed, and lacked personnel capable of managing such a large project. It appears that ultimately the ranch was a real estate speculation, able to shore up at least 350 ha. and eventually the 1500 ha. allocated under the Master Plan, because from much of the land residential or commercial property could be built that overlooked Singapore.<sup>361</sup>

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<sup>352</sup> Only the cofferdam and a temporary treatment plant had been finished, providing only 2,000 cubic metres a day from the planned 7,500 cubic metres a day capacity. *Kompas*, 29 January 1977. *Progres*, February 1977.

<sup>353</sup> 185 km of road had been opened up between Sekupang and Batu Ampar, but had not been asphalted. *Kompas*, 29 January 1977. *Progres*, February 1977.

<sup>354</sup> *Kompas*, 24 September 1976.

<sup>355</sup> *Insight*, March 1978, p 11.

<sup>356</sup> *Kompas*, 28 January 1977. *New Nation*, 1 March 1977. *Straits Times*, 1 September 1976.

<sup>357</sup> *Kompas*, 28 January 1977. *New Nation*, 1 March 1977.

<sup>358</sup> Interview with Sujatmiko, 24 August 1994.

<sup>359</sup> The writer also claimed incorrectly that grass for the cattle had proved difficult to grow and had to be imported from Malaysia and Thailand. *Tempo*, 13 December 1975.

<sup>360</sup> Interview with John Leake, 26 April 1995. The ranch was never to make an impact on Riau's livestock industry. Hendra Asmara ; "An economic survey of Riau" *Bulletin of Indonesian Economic Studies*, November 1975 (No.3 Vol.XI), p 34.

<sup>361</sup> Interview with John Leake, 26 April 1995.

The government was not without fault for some of the problems which had beset the Batam project. The Batam Island Supervisory Board, comprising all Ministers whose support was necessary for executing Batam's development program, together with the team of assistants, could have strengthened and smoothed the development of Batam Island. However, the Supervisory Board had in fact never sat, and even by 1975 the teams of assistants promised had not been appointed.<sup>362</sup> Supervision and guidance which the Batam Island development perhaps required, and BIDA had expected, from the Supervisory Board was never given.

Perhaps knowing his and Pertamina's own capacity, BIDA's chairman, Ibnu Sutowo, had made a serious attempt to speed up the development of some basic infrastructure and industrial projects by involving Pertamina more deeply. Certainly, the infrastructure and manufacturing plants which were established and financed by Pertamina had become a catalyst for the development of Batam Island. As a result, however, it was one of the projects which led Pertamina into financial trouble - Pertamina had spent US\$100m on the development of Batam Island.<sup>363</sup>

However, by most accounts, Batam Island was already functioning as an important logistics base.<sup>364</sup> Despite Pertamina's problems, new investors in the oil sector were showing an interest in Batam Island. Pertamina continued to set up several joint ventures with foreign companies on Batam, including : United Engineers Ltd and Airthrust Pte Ltd of Singapore for service and equipment fabrication in February 1976<sup>365</sup>, Avery Laurence Pte Ltd of Singapore for the assembly of drilling and processing equipment in March 1976<sup>366</sup>, and Dresser A.G.Lichtenstein of USA for the production of rockbits used in oil and gas exploration and mining in December 1975.<sup>367</sup>

<sup>362</sup> Editorial staff : The Dilemma of Batam Island , *Indonesia Oil and Gas*, Vol.1 No.4, November 1975, p 9.

<sup>363</sup> OPDIPB ; *Data Kemajuan Pembangunan Daerah Industri Pulau Batam sampai/dengan bulan April 1991* (Jakarta, Mei 1991). Various other figures abounded, but BIDA's official estimate is the most reliable. A figure of US\$5-10m with another US\$30m committed at the end of 1974 is given in 'The Development of Batam Island : Current Status and Prospects' (mimeo, US Embassy, Jakarta 07/11/1974) in P.A.Wellons ; *Borrowing by Developing Countries on the Euro-Currency Market* (OECD, Paris 1977), p 211. US\$21m is given in *Asia Research Bulletin*, 28 February 1974, pp 2457-2458. A US\$60 million figure was given in *Indonesia Oil and Gas*, Vol.1 No.4, November 1975, p 9. A figure of S\$75 million for the period before early 1973 was given by *New Nation*, 11 February 1974. A figure of US\$200m was given in *Kompas*, 29 January 1977 and *Progres*, February 1977. The US\$372 million figure for the period up to 1978 came from *Far Eastern Economic Review*, 20 April 1979. A figure of US\$107,296,687.71 for the period 1971-75 was given in PMB-LIPI ; *Tradisi dan Potensi Sosial Ekonomi Masyarakat Riau Kepulauan*, (Jakarta 1993), p 27. Other figures provided by BIDA Chief Executive Officer, Soedarsono were more than Rp600 million in *Kompas*, 12 January 1981 and *Suara Karya*, 5 February 1981, and around US\$500m (Rp307.5b) before 1978 in *Sinar Harapan*, 20 April 1981.

<sup>364</sup> US Embassy, Jakarta ; *Indonesia's Petroleum Sector* (June 1976). Ref : Jakarta A-105. *Tempo*, 22 November 1975. *Indonesia : A survey of US business opportunities*, (US Department of Commerce, May 1977), p 6.

<sup>365</sup> United said the project was a base for the companies expansion into Indonesia. *Petroleum News*, May 1976, p6. *Straits Times*, 17 March 1976. *Bulletin Pertamina*, 5 March 1976 (No.10 Th.XII). *Singapore Economic Bulletin*, April 1976, p 26. It was to fabricate equipment for the oil refinery but never went ahead because no oil refinery and competition. Interview with MC, 10/11/1994.

<sup>366</sup> *Bulletin Pertamina*, 5 March 1976 (No.10 Th.XII). *Singapore Economic Bulletin*, April 1976, p 26.

<sup>367</sup> *Bulletin Pertamina*, 12 December 1975 (No.50 Th.XI) *Pertamina Bulletin*, January 1976 (No.1 Vol.V)

It was clear that Batam had gained a toehold as a logistics base and a transshipment point for oil-related projects but that its future rested on private sector investment.

Meanwhile, debate about the future of the Batam Island project, both public and within government circles, raged in Indonesia. The basis and grounds of the arguments for and against Batam Island varied from one official to another. Bappenas and other economic ministries were reportedly dissatisfied with the project as it currently stood, yet it was not clear whether the objection or dissatisfaction lay in the belief that the project was based on unsound grounds, or on the organisational structure of the project. As long as the Batam project was to be carried out by an independent authority free from Bappenas's control or supervision, such an uncoordinated project was bound to interfere with the implementation of the Repelita.<sup>368</sup> As a result, there were many who mistakenly believed that the technocrats tried to cancel the project because it was not in the Bappenas plan.<sup>369</sup> When questions about the fate of Batam Island were raised with the Chairman of the Investment Coordinating Board, Barli Harlim, at a hearing with the Commission VI in late 1975, Harlim frankly explained that the BKPM and Bappenas had already begun chalking out a plan for Batam Island.<sup>370</sup>

Those at the Ministry of Finance were perhaps more concerned with the source and method of financing the Batam Island project than anything else, for an autonomous government project to be financed from a non-budgetary source could upset the state budget. Since Repelita II aimed primarily at raising agricultural output and the standard of living of the rural population, the Batam Island project would be of secondary importance in terms of financial priority. Minister of Finance, Ali Wardhana, was particularly concerned over existing smuggling activities which might be encouraged even further by the development of the free trade zone. Others cast doubt about Batam because Indonesia had already failed once in the past in trying to develop a free port project, on Sabang Island.<sup>371</sup>

One senior official apparently based his doubts on the fact that Batam Island was underpopulated, and a lack of manpower on the island would cause the failure of the project, a fact that could only be avoided if transmigration was inexpensive, yet massive migration accompanied by a crash program of massive education was almost impossible.<sup>372</sup>

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<sup>368</sup> Editorial staff : The Dilemma of Batam Island , Indonesia Oil and Gas , Vol.1 No.4, November 1975, pp 1-2.

<sup>369</sup> Interview with DPR member, Jacob Tobing, 11 August 1994.

<sup>370</sup> Editorial staff : The Dilemma of Batam Island , Indonesia Oil and Gas , Vol.1 No.4, November 1975, pp 1-2.

<sup>371</sup> Editorial staff : The Dilemma of Batam Island , Indonesia Oil and Gas , Vol.1 No.4, November 1975, pp 1-2.

<sup>372</sup> Editorial staff : The Dilemma of Batam Island , Indonesia Oil and Gas , Vol.1 No.4, November 1975, pp 1-2.

Jacob Tobing, Chairman of DPR Commission VI, led a team to Batam in late 1975 and was of the opinion that while the idea was right, the waste was not, but that development should continue because it was "only natural".<sup>373</sup> In fact most government ministers and senior officials were of the opinion that already too much had been placed on its success to stop the project.<sup>374</sup>

The Indonesian government was to determine that the development of Batam was a project of central importance to the development goals of Indonesia. In the end, perhaps, it was President Soeharto who, having supported the project from the beginning had much face to lose, ensured the development of Batam Island would continue. In mid-1976 the government officially took over the Batam Island project, deciding to continue with its development because of its apparent economic feasibility and national importance.

In fact, Soeharto first began exerting his control over the Batam project in late 1975 when he appointed Air Vice-Marshal Sujatmiko as BIDA Chief Executive Officer on Batam Island, although the formal power to make such an appointment was the preserve of the Chairman of BIDA, at that time Ibnu Sutowo.<sup>375</sup> In November 1975, Abihasan Said was transferred from his positions as BIDA Chief Executive Officer, Pertamina Liaison Officer in Singapore and Site Manager of Pertamina Batam, and returned to the Defence Ministry.<sup>376</sup>

It was decided that Pertamina could retain its Steel Plate Processing Plant at Batu Ampar, and its logistics base at Sekupang, as they were related to the oil sector, and in February 1976 they were transferred to Pertamina Unit VII by the caretaker Site Manager of Pertamina Batam, Ramli Bahauddin. All Pertamina foreign joint-ventures, projects, buildings, assets and personnel on Batam Island were now the responsibility of, and managed by, Pertamina Unit VII.<sup>377</sup> Pertamina's involvement in BIDA, and in the non-oil aspects of Batam's development was effectively over.

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<sup>373</sup> Interview with Jacob Tobing, 11 August 1994. *Kompas*, 27 September 1975.

<sup>374</sup> Interview with Mohammed Sadli, 22 July 1994.

<sup>375</sup> Sujatmiko was 'dropped in' by Soeharto as the government's representative on Batam Island, replacing Abihasan Said in November 1975. Sujatmiko had been a commander under Soeharto in the Irian Jaya and Confrontation campaigns. Between 1965-68 he was Airforce Commander of Regional Air Command I in Sumatra and then Assistant to the Airforce Chief-of Staff, as Chief of the National Air Defence Command (Kohanudnas) until his appointment to BIDA. Interview with Sujatmiko, 16 August 1994. Sujatmiko had already taken over from Ibnu as Chairman of Persero Batam in 1974. Interview with Hernomo, 22 August 1994.

<sup>376</sup> Interview with Abihasan Said, 16 August 1994. *Merdeka*, 21 November 1975. *Petroleum News*, February 1976, p. 6. Hanum Faeni became Liaison Officer until the office closed on 31 August 1976. *Singapore Economic Bulletin*, October 1976, p. 47.

<sup>377</sup> *Bulletin Pertamina*, 13 February 1976 (No.7 Th.XII). *Bulletin Pertamina*, 27 February 1976 (No.9 Th.XII). *Pertamina Bulletin*, March 1976 (No.3 Vol.5). Interview with Piet Haryono, 8 August 1994.

Ibnu Sutowo was released as Chairman of BIDA following his dismissal as President-Director of Pertamina on 4 March 1976.<sup>378</sup> In July 1976, Prof Dr. J. B. Sumarlin was appointed Chairman of BIDA, while Major-General Hernomo retained his position as BIDA Vice-Chairman. Batam Island had essentially and effectively been disengaged from its origins and association with Pertamina, and embarked on a very different path of development under the technocrats.

Though the Pertamina crisis proved to be a drain on the government's finances, it provided the Ministry of Finance and technocratic government planners with the opportunity to exercise greater control over the state oil enterprise. The technocrats were glad to have a chance to put Pertamina under control and bring its problems out into the open. They confined the company to the petroleum and gas business, divesting it of all non-oil enterprises. The technocrats' handling of the Pertamina crisis reinforced their already strong international reputation and placed them in an enhanced position of power within the Indonesian government.

Like many of Pertamina's non-oil activities, the Batam Island project was a prime candidate for cancellation, but because of the President's own support for the project, as well as the technocrats' belief that it could be beneficial for Indonesia, it was decided to proceed with the development.

### **Policy-making**

Policy-making on Batam during the period 1968-1976 exhibited several of the major features of New Order politics - Presidential Domination, Clientelism and Intra-Elite politicking. As expected, societal input was weak, if not non-existent, while external influences were clearly apparent. There were several obvious reasons for this. Firstly, Batam Island was administered directly from Jakarta, and therefore the main features of policy-making reflected those existing at the centre. Secondly, Batam Island was a Pertamina development and took on many of the features of its organisational, administrative and business style. Thirdly, Batam held strategic importance for Singapore and Japan.

At the apex of the policy-making structure for Batam Island was Soeharto. The Batam project could not have gone ahead without his consent, and whilst his influence was not obvious on a daily basis, he remained the key power-broker. It was Soeharto who was able to convince Singaporean Prime-Minister Lee Kuan Yew that Batam did not constitute an immediate threat to Singapore. It was Soeharto who intervened when

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<sup>378</sup>In March 1976 Ibnu issued two Surat Keputusan about land on Batam Island (Surat Keputusan No.111/Kpts/K/OPDIPB/1976), probably his last actions as Chairman of BIDA.

conflict broke out between Ibnu Sutowo and the technocrats over the Masterplan, particularly the US\$372m price tag. It was also Soeharto who left the major daily decision-making processes to Ibnu Sutowo, although he placed Hernomo in a position to exert some influence on his behalf where necessary. Soeharto, however, left most of the decisions to Ibnu Sutowo, giving Ibnu almost complete freedom.<sup>379</sup>

With a mandate from Soeharto, Ibnu Sutowo had complete control over the Batam Island project. Any legislative needs were simply passed on to Soeharto in final draft form for immediate consent, whilst choice of development plan, and of types of investment, were the sole prerogative of Ibnu, at least initially. Most importantly, however, Ibnu Sutowo controlled all Pertamina contracts on Batam Island.

The rise of many pribumi businessmen was directly attributable to successful access to Pertamina contracts.<sup>380</sup> Ibnu Sutowo made contracts, mainly for construction and light engineering, available to domestic companies entering the oil service sector, resulting in dozens of privately-held Indonesian companies being dependent on Pertamina for most or all of their contracts, the majority of them construction firms. A number of Pertamina contracts on Batam Island, mainly for non-oil-specific construction, were awarded to pribumi businessmen, including Ibnu's assistants. Others went to his foreign associates, Robin Lo and Tong Djoe.

Ibnu Sutowo, and family members, also owned a number of enterprises on Batam Island. There is no doubt that Ibnu often exploited opportunities for making private investments.<sup>381</sup> As Robison noted, the boundaries between Ibnu's public and private empires were often blurred - his partners and clients in private business included employees, contractors and business partners of Pertamina.<sup>382</sup> Ibnu Sutowo admitted, "I personally stay out of anything connected with oil. But people are happy to deal with me because they know who I am."<sup>383</sup> As a result the stable of private companies owned by the Sutowo family grew, to the extent that Ibnu Sutowo headed the largest private indigenous business group in Indonesia, as well as on Batam.

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<sup>379</sup> Interestingly, Soeharto does not appear to have taken interest in the sources of financial patronage open to him on Batam Island, although there is evidence to suggest that the activities of Ibrahim Adjie and Bob Hasan were owed something to Soeharto.

<sup>380</sup> When oil exploration began all oil service companies operating in Indonesia were foreign owned and managed, and it was not until the early and mid-1970s that Indonesian companies began moving into the services sector. Pertamina was an important factor in the emergence of a domestic capitalist class because it was a major source of contracts for supply and construction, and generated a variety of manufacturing and service industries. It should be noted that Ibnu's promotion of Indonesian participation in the oil service market stopped short of direct intervention in foreign contractor's choices of suppliers of oil services. Jean Bush Aden ; "Entrepreneurship and Protection in the Indonesian Oil Industry" in Ruth McVey (ed) *Southeast Asian Capitalists* (Cornell University, New York 1992), pp 89-93.

<sup>381</sup> Jean Aden Bush ; *Oil and Politics in Indonesia, 1945 to 1980* (PhD Thesis, Cornell University 1988), p 406.

<sup>382</sup> Richard Robison ; *Indonesia : The Rise of Capital* (Allen and Unwin, Sydney 1986), p350.

<sup>383</sup> *Time*, 31 August 1970.

Apart from Soeharto and Ibnu Sutowo, the only remaining influence on the policy-making processes on Batam were the technocrats. Whilst the technocrats generally had little influence where Ibnu Sutowo, Pertamina and the oil industry was concerned, they were aware of Ibnu's ability to attract foreign investment, and on Batam he had been able to do so with relative success. The technocrats did, however, make their concerns with the Batam Island project known, conflict finally coming to a head with Ibnu over the cost of the Masterplan. In most respects, however, the influence of the technocrats remained limited until 1976 when they were handed the project by Soeharto, and placed their stamp clearly on the project.

Societal influence on the Batam project remained weak, if not non-existent. The reason was simple. Batam Island was isolated from mainstream Indonesian society. The local population was small and politically marginal and lacked mechanisms for influencing Pertamina or the Indonesian government. Even the Riau provincial government was weak in the face of Pertamina and the national government.<sup>384</sup> The DPR, members of which made several visits to Batam, generally supported the project. But even at the height of the Pertamina crisis its influence was limited. Business associations concerned with Batam were non-existent, and where business had influence it was through clientelistic channels.

One major feature of Indonesian political-economy was starkly absent, that of ABRI. As the most powerful New Order institution, ABRI permeated Indonesian politics, society and economy. Whilst there is no doubt that the military leadership supported the Batam project because of security concerns with all border areas of Indonesia, direct ABRI influence conspicuously stopped there.<sup>385</sup>

ABRI were also noticeably absent from economic developments on Batam. New business opportunities generated by the influx of foreign investors and foreign capital were exploited elsewhere in Indonesia by those with political influence, particularly those of the military elite and their civilian associates. As Crouch has noted, the private business opportunities of military men had expanded in association with the inrush of foreign corporations and the government's encouragement of private business activities created conditions in which military-backed enterprises prospered, especially in the oil industry.<sup>386</sup> Military-sponsored enterprises were frequently given favoured treatment by army officers occupying key positions in the bureaucracy, most often when seeking

<sup>384</sup> As Bresnan noted, it is known that Ibnu Sutowo helped provincial governors with projects that were locally significant, most likely in order to placate local concerns over loss of influence. It is likely that he also helped them personally. John Bresnan ; Managing Indonesia : The Modern Political Economy (Columbia University Press, New York 1993), p 185.

<sup>385</sup> ABRI personnel, if indeed there were any based on Batam, remained confined to the naval base at Tanjung Uban on Bintan Island, adjacent to Batam.

<sup>386</sup> Harold Crouch ; The Army and Politics in Indonesia (Cornell University Press 1978), p 329.

licenses, credits and contracts. Military officers were well placed to benefit and, in association with Chinese businessmen and foreign investors, they increasingly dominated commercial life.<sup>387</sup>

The oil sector was a major source of finance for the armed forces, ie. as an independent source of funds.<sup>388</sup> It was widely reported that funds were made available by Ibnu Sutowo to high officials which they could draw on at their discretion and that Pertamina also provided funds to the Indonesian military.<sup>389</sup> There is certainly a strong possibility that the close relationship between ABRI and Pertamina extended to Batam Island. It was suggested that the placement of Hernomo, former KOSTRAD Chief-of-Staff, as BIDA Vice-Chairman indicated that Batam Island was just another 'well' for the army.<sup>390</sup> Yet because developments on Batam were so dominated by Pertamina, private-sector investments whether military-backed or not were few, and this is perhaps the reason behind the absence of ABRI influence on Batam.

External variables were to play an important part on the policy choices facing Ibnu Sutowo and the Indonesian government on Batam Island. Whilst improved domestic conditions in the late 1960s were important in attracting investors, favourable international conditions, especially for the oil sector made investment in the Indonesian oil industry attractive. Under those conditions, the development of the oil services and logistics base on Batam was a viable, if not attractive, proposition. In the same way, however, it was unfavourable international economic conditions - a recession and decreased demand for oil in 1974/1975 - which partly turned Pertamina's plans for Batam Island on its head.

Foreign capital played an important part initially, for there is no doubt that the origins of the development of Batam lie in Ingram's choice of Batam for its logistics base, and that this decision was crucial to Pertamina's entry to the island. Furthermore, the need to meet investor conditions in order to attract and maintain foreign investment on Batam meant that foreign capital had an important influence on the policy processes. However, the role played by foreign capital was not as negative as dependency theorists

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<sup>387</sup> Harold Crouch ; The Army and Politics in Indonesia (Cornell University Press 1978), p 274-5.

<sup>388</sup> Hamish McDonald ; Soeharto's Indonesia (Fontana, Melbourne 1980), p 115. It was generally accepted that only 40-50% of the military's real expenditure came from official budgetary allocations, and that the shortfall was met through a variety of means such as military-controlled state corporations, Pertamina and military-owned private companies. Far Eastern Economic Review, 8 February 1980.

<sup>389</sup> Peter McCawley ; "Some consequences of the Pertamina Crisis in Indonesia" , Journal of Southeast Asian Studies, March 1978 (No.1 Vol.IX), p 2. Funding of top army officers was said to continue into the early 1970s. Jean Bush Aden ; Oil and Politics in Indonesia, 1945 to 1980 (PhD Thesis, Cornell University 1988), p 415.

<sup>390</sup> US Embassy Translation Unit Press Review, 9 January 1973. Hernomo held a 10% share in PT Dharma Rimba Kencana, a company associated with Kostrad and overseen by the Yasayan Dharma Putra Group. BNPT No.154-1972. Richard Robison ; Capitalism and the Bureaucratic State in Indonesia, 1965-1975 (PhD Thesis, University of Sydney 1977), Appendix B, p xv.

argued at the time, for Pertamina's insistence on joint-ventures with foreign investors, even before the post-Malari investment regime, gave Pertamina the upper-hand.

Ibnu Sutowo virtually underwrote the growth of the Indonesian oil services sector by setting up partnerships between Pertamina and foreign producers for exploration and production equipment. Would-be investors wanting an inside track on contracts with Pertamina and offshore oil companies, or political access/protection, thronged to Ibnu Sutowo with offers of joint ventures.<sup>391</sup> As one report stated, "So many foreigners are following the Pertamina route [to joint ventures] that the company's waiting room has taken on the air of a mini United Nations."<sup>392</sup> Ibnu guaranteed minimal Indonesian interference in foreign contractors activities as an essential term of their entry into Indonesia - such as virtually unrestricted personnel movements, and freedom from import duties or Indonesian corporate taxes<sup>393</sup> - whilst most of these joint-ventures were protected from outside competition.<sup>394</sup> A joint-venture with Pertamina, especially on Batam Island, provided protection for a foreign investor.

On Batam Island, Pertamina-affiliated companies received preferential access to financing and to Pertamina contracts and made them formidable rivals for other Indonesian and foreign entrants into the oil servicing and supply industry.<sup>395</sup> A joint-venture with Pertamina was often part of the price of admission to Indonesia, especially after 1972<sup>396</sup>, and many were encouraged to set up on Batam Island. In the year to June 1974, 16 joint-ventures were formed, making a total of 29, a quarter of which were with foreign companies on Batam Island.<sup>397</sup>

Foreign governments also had influence on the Batam Island policy processes. In fact, it is quite likely that the Batam Masterplan had its origins in Japanese government concerns to secure an oil-tanker route through the Straits of Malacca, combined with a desire to invest in Indonesia's oil industry. If Japan was not the instigator, it was certainly an important influence on policy, and this was demonstrated in the Masterplan

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<sup>391</sup> Retiring Pertamina officials were frequently given positions in these largely foreign-managed companies. Jean Aden Bush ; Oil and Politics in Indonesia, 1945 to 1980 (PhD Thesis, Cornell University 1988), p 412. For example, Dr Sanger was the first President-Director of PT Toyo Kanetsu Indonesia. Bulletin Pertamina, April 1975 (No.4 Th.IV). Current Affairs Translations, November 1974 Bulletin.

<sup>392</sup> US Embassy, Jakarta ; Indonesia Petroleum Report (July 1974). Ref : Jakarta A-108.

<sup>393</sup> Jean Bush Aden ; "Entrepreneurship and Protection in the Indonesian Oil Industry" in Ruth McVey (ed) Southeast Asian Capitalists (Cornell University, New York 1992), p94.

<sup>394</sup> From 1972 Pertamina and foreign oil contractors had been required to choose subcontractors from among those oil service companies registered with the Directorate of Oil and Gas, and beginning 1974 designated oil service subsectors were declared closed to companies not already registered with the Directorate, although this ruling did not cover domestic companies. Jean Bush Aden ; "Entrepreneurship and Protection in the Indonesian Oil Industry" in Ruth McVey (ed) Southeast Asian Capitalists (Cornell University, New York 1992), p93.

<sup>395</sup> Jean Bush Aden ; Oil and Politics in Indonesia, 1945 to 1980 (PhD Thesis, Cornell University 1988), p 409.

<sup>396</sup> Jean Bush Aden ; "Entrepreneurship and Protection in the Indonesian Oil Industry" in Ruth McVey (ed) Southeast Asian Capitalists (Cornell University, New York 1992), p92.

<sup>397</sup> US Embassy, Jakarta ; Indonesia Petroleum Report (July 1974). Ref : Jakarta A-108.

itself which contained several features of primary interest to Japan. Furthermore, when Japanese interest in Batam Island declined, several key elements of the Masterplan were laid to rest, clearly illustrating the linkage.

In particular, geographic proximity made Singapore a serious consideration in the minds of Indonesia's policy makers, but it also created the dilemma of whether to compete with or complement Singapore. At the same time as Pertamina and nationalist elements had the aim of competing with Singapore, the Indonesian government needed to allay Singaporean concerns that this was the case. Batam was a topic of discussion between Soeharto and the incoming inaugural Singaporean ambassador to Indonesia at their first meeting in 1970, and remained on the agenda in all subsequent diplomatic discussions, including meetings with Lee Kuan Yew. If not a direct influence, Singapore indirectly influenced Indonesian policy-makers, and that influence has since remained with the Batam project.

## 4

### The Technocrat Period

When technocrat, Dr J. B. Sumarlin took charge of the Batam Island project in mid-1976, he immediately set about restoring investor confidence and reorganising the administrative and organisational structure of BIDA. Sumarlin, with the support of several other technocrats, then set about changing the nature of the Batam project as a whole, introducing regulatory reforms that reoriented development towards complementing Singapore.

In late-1978, responsibility for Batam was handed to Dr B. J. Habibie, who pursued the completion of the technocrat's complementary approach to Singapore. This culminated in an agreement between the two countries to cooperate in the development of the island.

#### The Technocratic Blueprint for Batam's Development

In a meeting on 23 September 1976, following discussions with the two most senior technocrats - Minister for Finance, Ali Wardhana, and Minister for Economic Coordination, Widjojo - President Soeharto told BIDA officials, Sumarlin, Hernomo and Sujatmiko that the Batam project, having been reconsidered and reprioritised, would be re-started.<sup>1</sup> In a significant move, aimed at raising investor confidence, Widjojo joined BIDA Chairman Sumarlin in announcing President Soeharto's decision.<sup>2</sup>

Widjojo outlined the four main priorities for Batam Island's development - as a transshipment centre; a centre for marshalling; a centre for the manufacture of exports; and as an industrial area.<sup>3</sup> This broadening of the scope of development took into account the contraction of the oil services sector in the late 1970s, and the doubtful prospect of an oil refinery being built on Batam, and significantly changed the focus of development towards becoming an industrial zone for the relocation of Singaporean

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<sup>1</sup> *Current Affairs Translations*, September 1976 Bulletin. Interview with former BIDA Vice-Chairman, Hernomo, 22 August 1994. For doubts about the feasibility of the Batam project see the Editorial in *Sinar Harapan*, 2 September 1976.

<sup>2</sup> *Kompas*, 24 September 1976.

<sup>3</sup> *Kompas*, 24 September 1976. Sumarlin also mentioned these four priorities. *Progres*, December 1976. *Kompas*, 5 May 1977.

industries.<sup>4</sup> The decision was to be a significant victory for the technocrats, who had long argued that the development of Batam should be focused on complementary activities with Singapore.<sup>5</sup>

Sumarlin announced that the renegotiation of Pertamina's contracts had been completed, and that several important infrastructure projects had been prioritised for completion - the Sekupang harbour for transshipment, the Batu Ampar harbour for bonded warehouse and industrial needs, and building and maintenance of roads and water and electricity supply facilities.<sup>6</sup>

Sumarlin also announced that there would be a revamp of BIDA's organisational and administrative structures.<sup>7</sup> BIDA's main tasks were to coordinate current contracts, assess investment applications, maintain and secure investor facilities and general infrastructure, make further studies, provide information and market Batam Island to potential investors.<sup>8</sup>

Most importantly, Sumarlin announced Cabinet approval of budgetary funds for the development of Batam. It was reported that BIDA's initial budget was US\$200m, but no time frame was given, and the actual amount of government investment realised in the period 1976-1978 amounted to only US\$8m.<sup>9</sup> Significantly, however, it marked the beginning of the development of Batam being funded from the national budget. With the budget allocation and the announcement of several infrastructure projects, BIDA was now able to begin making new efforts to lure foreign investment to Batam.

President Soeharto, together with several senior Ministers, inspected Batam Island on 29-30 November 1976, for the purpose of reaffirming the development of Batam and to restore investor confidence in the project.<sup>10</sup> When receiving foreign and domestic investors, Soeharto said that the government was committed to the development of Batam Island, and promised administrative liberalisation and the provision of physical

<sup>4</sup>New Nation, 1 March 1977. Interview with former Pertamina Liaison Officer in Singapore, Sumarno Dipodisastro, 31 August 1994. Interview with former BIDA Chief Executive, Sujatmiko, 24 August 1994.

<sup>5</sup>Interview with former minister, Emil Salim, 18 August 1994.

<sup>6</sup>Kompas, 24 September 1976. Kompas, 29 January 1977.

<sup>7</sup>Kompas, 24 September 1976. It also marked the beginning of a switch-over period whereby many of Pertamina employees working for BIDA returned to Pertamina. Several did decide to stay. Interview with Sujatmiko, 24 August 1994.

<sup>8</sup>Interview with Sujatmiko, 24 August 1994.

<sup>9</sup>BIDA ; Data Kemajuan Pembangunan Daerah Industri Pulau Batam sampai/dengan bulan April 1991 (Jakarta 1991). According to BIDA officials, the budget was very small and constraining. Interview with Sujatmiko, 24 August 1994. At the announcement Sumarlin refused to state how much had been approved. Kompas, 24 September 1976. It was later reported to be an initial US\$200m. The Sunday Times, 10 October 1976. Another source put the realised budget at Rp10.8b for 1975-1978. Sinar Harapan, 28 December 1983.

<sup>10</sup>Interview with Sujatmiko, 24 August 1994. Those observing included Riau Governor Arifin Achmad, Pertamina President-Director Piet Haryono and Ministers Emil Salim and Widjojo Nitisastro. Progres, February 1977. Bulletin Pertamina, 24 December 1976 (No.52 Th.XII). Pertamina Bulletin, January 1977 (No.1 Vol.VI).

infrastructure. He added that the government realised that there were deficiencies, especially in the administrative field which had most concerned investors, but that the government was looking into those problems.<sup>11</sup>

Many companies, foreign and domestic, had been waiting for an announcement from the Indonesian government that it was committed to developing Batam Island, that a budget had been allocated and that infrastructure work would continue. With those conditions met, investor interest in Batam was able to be maintained.<sup>12</sup> It did not, however, lead to new investments, but to satisfying the needs of existing investors.

From time to time, Batam was rocked by rumours of massive new investments or a rapid pick-up in activity. For instance, it was reported at the end of 1976 that the Japanese government had made a loan of US\$340m for new projects on Batam, but there is no evidence that it eventuated.<sup>13</sup> There were rumours that a 3,000 ha site was even allotted for a proposed University of ASEAN, where students from all ASEAN member-states could study together.<sup>14</sup> However, there was little new investor activity over this period, and Sumarlin's main aim was to consolidate existing development and prepare Batam for the medium-term.

### A New Masterplan

The downturn in the international oil market meant that a reconsideration of development on Batam was necessary, for economic conditions in the late 1970s were very different from those when Pertamina's Masterplan was originally conceived. Sumarlin realised that much of the commercial and industrial activity envisaged in that plan was either no longer applicable or too ambitious and, beginning 1976, started a review of developments on Batam Island which was to result in the formulation of a new development program and Masterplan.

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<sup>11</sup>Progres, December 1976. Kompas, 31 January 1977. Suara Pembaruan, 23 October 1987.

<sup>12</sup>Straits Times, 1 September 1976. New Nation, 1 March 1977.

<sup>13</sup>Straits Times, 30 November 1976. Straits Times, 12 March 1979. It was reported in September 1977 that BIDA had approved a series of development projects worth S\$350m, and it was announced that skilled workers from Singapore were to be recruited to construct and supervise them. The projects included : a \$187.5m holiday resort on 100ha. with a 200 room hotel, golf course, swimming pool, theatre and chalets and facilities for fishing and dog racing, catering for Singaporean and foreign tourists coming to Indonesia; a \$62.5m dry-dock able to repair ships ranging from 10,000 to 60,000 tonnes; a \$37.5m abattoir, cattle farm, cold storage and ice factory complex geared for the export market; a \$37.5m wood processing plant; a \$12.5m supermarket; and a \$12.5m pipe factory. Two Singapore firms, Unitech International and Trans Asia Consultants were reported to have been appointed consultants for the projects, said to be joint ventures between Malaysian and Indonesian business interests. Singapore Economic Bulletin, October 1977, p 32. Straits Times, 15 September 1977. There is no evidence to suggest the realisation of any of these projects.

<sup>14</sup>Planned by Persada (Association of former Indonesian students in Japan), it was never able to secure funding from Japan. Singapore Economic Bulletin, May 1977, p 23.

The first review was a feasibility study carried out in 1977 by the Crux consulting group, apparently at the behest of the World Bank.<sup>15</sup> The Crux report considered the decline in petroleum industry activity, and taking account of existing infrastructure, prevailing investor conditions and overall potential, provided guidelines for short-term but broad-based development of Batam, embracing a wider vision of future growth areas and opportunities. The Crux report suggested an immediate development program and recommended further studies to be made. Calling for a new Masterplan it concluded that Batam Island represented an excellent opportunity for development.<sup>16</sup>

The report was received favourably. Batam Island's problem was clear; it depended entirely on the state of the regional oil industry which was in recession in the late 1970s. It was obvious that Batam Island's overall development strategy, which hitherto had been based on the oil and gas exploration industries and downstream energy product processing, needed both a change in focus and a new master plan to take account of post-Pertamina developments. Considering the changes, a new Masterplan was developed, based on a review, evaluation and redrafting of all previous planning studies - the 1972 Masterplan, the Crux Report, and various sectoral studies - and carried out by a team made up from BIDA, and the Directorates for Urban Planning, and Building and Construction from the Department of Public Works. Completed in April 1979, the Masterplan was fairly comprehensive, establishing a framework for growth and development up to the year 2004, when Batam Island would have a projected population of 700,000.<sup>17</sup> Reviewed every five years, it remains the guiding blueprint for development on Batam Island.<sup>18</sup>

The Masterplan covered the development of transshipment facilities, the establishment of industrial areas, the development of marshalling areas for the import and export of goods, the construction of tourism facilities and the provision of support infrastructure such as housing, offices, shopping centres and cultural facilities. The integrated development and zonal plan set out in detail the allocation of land for industrial, commercial and agricultural use, dividing the island into several major development areas, each emphasising particular roles, infrastructure requirements, and priority industries and sectors. Its principal objective was to develop the island in an orderly yet rapid fashion as a major industrial, commercial and tourism centre in Indonesia.<sup>19</sup>

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<sup>15</sup>Far Eastern Economic Review, 20 April 1979.

<sup>16</sup>The report was later criticised for not giving a clear picture of developments on Batam because it relied on 21 case-studies of businesses either operating on Batam Island or interested in doing so, and lacked a macro-economic approach. BIDA ; 1986 Report.

<sup>17</sup>OPDIPB ; Rencana Kerangka Dasar. Tata Ruang Pengembangan Daerah Industri Pulau Batam (Jakarta, 1979). Details can also be found in BIDA ; The Batam Development Program (Jakarta, 1980).

<sup>18</sup>Interview with BIDA Executive, Gunawan Hadisusilo, 10 August 1994.

<sup>19</sup>For details of the plan and land use allocation projections, see BIDA ; The Batam Development Program (Jakarta, 1980), pp 17-25.

The major recommendations of the Masterplan were : that services for investors be orderly, quick and efficient; that incentives and concessions be made for investors; that development play a complementary role to Singapore; that private sector involvement, both foreign and domestic, was crucial to Batam Island's future success; and that because of limited government funds, infrastructure development must be strategically targeted.<sup>20</sup> The Masterplan still considered that oil prospects were bright for Indonesia, and that Batam Island could continue to be an attractive location for oil-related industries.<sup>21</sup> In addition to the Masterplan, short-term guidelines for development were offered based on coming five-year needs, and emphasising basic equipment in the first phase - BIDA would concentrate on roads, communications, transport, power and water supplies.<sup>22</sup>

### **Regulatory Reform**

With room to manoeuvre, the technocrats introduced a host of new regulations for Batam Island. The aim of each new regulatory reform was to encourage Batam's development by stimulating private sector involvement, and by aligning the regulatory environment to that of Singapore. Everything that Batam Island required to attract investment was provided - lower land prices and harbour tariffs than Singapore, new facilities and incentives for investors, and the bolstering of BIDA by giving it control over land allocations, investment applications and other areas usually the preserve of central government departments.<sup>23</sup>

As Minister for Regulatory Reform, Sumarlin coordinated all activities related to the creation of the efficient functioning of the government apparatus. The role was similar on Batam where Sumarlin aimed to create a single management for the island. As a result, administrative and regulatory reforms provided new guidelines for BIDA on land, ports, and investment, and for the execution of policies for the fostering and control of the development of Batam Island.<sup>24</sup>

Considering that Batam was surrounded by sea, BIDA was given the right to build and control all harbours on Batam Island.<sup>25</sup> The decision placed the harbours of Sekupang, Batu Ampar, Kabil and Nongsa under the control of BIDA, with the aim of increasing

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<sup>20</sup>OPDIPB ; *Rencana Kerangka Dasar. Tata Ruang Pengembangan Daerah Industri Pulau Batam* (Jakarta, 1979), pp 6, 8, 20, 65-66.

<sup>21</sup>OPDIPB ; *Rencana Kerangka Dasar. Tata Ruang Pengembangan Daerah Industri Pulau Batam* (Jakarta, 1979), p 3.

<sup>22</sup>For details of Stage 1 of the development program, 1979-1984 see, BIDA : *The Batam Development Program* (Jakarta, 1980), pp 27-31.

<sup>23</sup>Interview with Hernomo, 22 August 1994.

<sup>24</sup>*Progres*, Desember 1976.

<sup>25</sup>Interview with Emil Salim, 18 August 1994. Whilst BIDA was to build the harbours, the Department of Communications retained limited control over them, but all harbour tariffs were to be set by BIDA. Interview with Hernomo, 22 August 1994.

foreign trade and expediting transshipment activities in line with a national program for developing ports and commercial traffic.<sup>26</sup>

BIDA was assigned the right of management (hak pengelolaan) over all land on Batam Island, giving BIDA the right to plan land use, utilise land, and assign the right of building (hak guna bangunan) and the right of use (hak pakai) to third parties. BIDA was also entitled to the receipt of income from all land rates and rentals.<sup>27</sup>

With the aim of creating a one-stop service for investors, investment application procedures were also improved to facilitate and accelerate investment and BIDA was given full authority to handle and evaluate investment applications for the Batam Island bonded area.<sup>28</sup>

Organisational changes were also made to the structure of the Batam Island Supervisory Board in order to increase and improve government coordination, integration and synchronisation in developing Batam Island.<sup>29</sup>

The most important change was the decision to declare all of Batam Island a bonded zone, with the aim of encouraging the development of export-oriented industries and facilitating the importation of materials required by manufacturing industries located on the island. The regulation effectively meant that imports into Batam Island were free of all duties and tariffs, bringing Batam into line with Singapore's free port status.<sup>30</sup> The

<sup>26</sup>Surat Keputusan Bersama Menteri Perdagangan, Menteri Keuangan & Menteri Perhubungan No.149/Kpb/V/77. 150/KMK/1977. KM 119/0/Phb-77 (24 May 1977). It amended an earlier joint ministerial decree which had specified the coordinates of Batam Island's harbours which had been designated for Pertamina's logistics base on Batam Island in order to facilitate the loading and unloading of goods/equipment needed for oil activities. Surat Keputusan Bersama Menteri Perdagangan, Menteri Keuangan & Menteri Perhubungan No.79/KPB/IV/76. KEP-481/MK/4/1976. 171/0/PHB-76 (23 April 1976). An earlier decision gave permission to Pertamina to build and own the harbours of Sekupang, Batu Ampar, Kabil and Nongsa for the purpose of facilitating the loading and unloading of goods/materials needed for activities connected with offshore oil and gas exploration as a logistics base for Pertamina. Surat Keputusan Menteri Perhubungan No.KM 155/0/Phb-76 (9 April 1976).

<sup>27</sup>The decision was a follow up to provisions stipulated in Kepres No.41 1973 that land use patterns must be carried out according to the Master Plan, which was the basis for the administration and management of the land area. In addition, it stipulates the payment of compensation for land, buildings and crops acquired as well as resettlement for those affected. Included in the decree was the right of control of land on the five surrounding islands of Janda Berias, Tanjung Sau, Ngenang, Kasem and Moimoi. Surat Keputusan Menteri Dalam Negeri No.43 (18 February 1977). The right of exploitation (hak guna usaha) could not be granted. Hak guna bangunan in Batam is granted for 30 years, and can be extended for another 20 years, after which the cycle can be repeated. This right is given to joint-venture companies. Hak pakai is granted for 10 years and can be renewed for further 10 year periods provided the use of land has not changed. This right is given to foreigners domiciled in Indonesia. KPMG ; Investment in Batam, (Singapore, 1993). For full details of the land use system see Prof.A.P.Parlindungan ; Hak Pengelolaan Menurut Sistem UUPA (Penerbit Mandar Maju, Bandung 1989), pp 61-83.

<sup>28</sup>Surat Keputusan Ketua BKPM No.1/1978 (7 February 1978). It replaced earlier decisions giving BIDA authority for preliminary approval over investment applications. Surat Keputusan Ketua BKPM No.10/1/SK/BKPM/III/1977 & Surat Keputusan Ketua BKPM No.1/1977.

<sup>29</sup>Altering Kepres No.41/1973 it added 4 new members to the Supervisory Board - Ministers for Mines and Energy, Public Works and Environment, and President-Director of Pertamina. Keputusan Presiden No.45/1978 (18 December 1978).

<sup>30</sup>Keputusan Presiden No.41/1978 (24 November 1978).

government also decided to exempt goods exported through bonded warehouses on Batam Island from export duty in order to boost exports.<sup>31</sup> Special provisions also allowed usually prohibited imported goods to be brought in to Batam if they were for processing or re-export.<sup>32</sup>

Not all, however, were to be forthcoming in supporting the new regulatory measures for Batam Island. In fact, the President took all senior ministers to Batam Island at the end of 1976 and instructed them to support its development, following complaints by BIDA Vice-Chairman Hernomo that he was having difficulty coordinating the various departments and ministries in preparing the new regulations for Batam Island.<sup>33</sup> The move apparently worked, as evidenced by the long series of regulations issued during 1977-78.

Whilst the Batam Island Supervisory Board was supposed to support BIDA in the field of policy-making, Hernomo found it easier to go straight to the minister directly involved for a policy or regulation. The three ministries most often involved were those of communications, trade and finance, headed respectively by technocrats Emil Salim, Radius Prawiro and Ali Wardhana. Where a reform involved more than one minister, and coordination was poor - as one minister would agree and the other not - Hernomo directly approached the President for a decision. For instance, the Bonded Zone ruling in 1978 was intended to be a joint-ministerial decree but as Ali Wardhana refused to sign because of long-held concerns with smuggling, Soeharto issued a Presidential Decree, effectively over-ruling Ali Wardhana.<sup>34</sup>

The regulations introduced for Batam were an important step towards the liberalisation of trade and investment, and the stimulation of foreign and private domestic sector involvement on Batam, but more importantly they were the key requirements for soliciting support in Singapore for the Batam Island project.

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<sup>31</sup>Singapore Economic Bulletin, August 1978, p 25. These general procedures for the entry, clearing and transfer of goods in/out of bonded warehouses were outlined in Keputusan Presiden No.21/1978 (26 July 1978). New general procedures for the entry and exit of goods in and out of bonded warehouses in Indonesia were later stipulated as a follow up to Kepres No.21/1978 in Surat Keputusan Menteri Keuangan No.470/KMK.05/1978 (4 December 1978). It replaced an earlier decision which stipulated provisions for the exemption of goods entering/exiting bonded areas from customs, excises, taxes and other levies. Surat Keputusan Menteri Keuangan No.9/KMK.01/1978 (10 January 1978). That last decision was a follow-up to the government law establishing bonded warehouses and stipulating the basic provisions governing their operation. PP No.20/1972 (13 June 1972) juncto PP No.31/1977 (23 July 1977).

<sup>32</sup>These special provisions for Batam Island were stipulated in Keputusan Presiden No.22/1978 (26 July 1978). Special procedures for the entry/exit of goods in and out of the Batam Island bonded area were further stipulated in Surat Keputusan Menteri Keuangan No.471/KMK.05/1978 (4 December 1978), in light of the new decision (Kepres No.41/1978) declaring all of Batam Island a bonded zone.

<sup>33</sup>Interview with Hernomo, 22 August 1994.

<sup>34</sup>Interview with Hernomo, 22 August 1994. Wardhana's concern was perhaps with the customs service because it was virtually autonomous even though nominally under the control of the Department of Finance. Bruce Glassburner ; "Political-economy and the Soeharto regime", Bulletin of Indonesian Economic Studies, Vol.XIV No.3 (November 1978).

### **Reconsidering Singapore**

Perhaps the most crucial change introduced by Sumarlin was the increased emphasis on Singapore for Batam Island's future development. Indonesia had made various efforts in the early 1970s to make Batam Island a competitor to Singapore, but a combination of the failure of those efforts and the increasingly warm relations between Jakarta and Singapore, resulted in a turn-around in Indonesia's policy towards Batam. Instead of trying to develop Batam independently as a competitor to Singapore, the Indonesian government now began to look to Singapore as the motor for Batam's development. As one Indonesian minister put it,

In order to become a good partner of Singapore, the business atmosphere and facilities on Batam Island will be made equal to those of Singapore.<sup>35</sup>

Batam Island had not received much attention from Singapore for several reasons, despite occasional expressions of interest. Firstly, Batam Island was a potential rival, capable of luring investors away from Singapore. Secondly, infrastructure was not sufficiently developed to meet the needs of Singaporean businesses. Thirdly, the Singapore government was still exploring ways to retain investment in, and attract new investment to, Singapore through such means as reclaiming several hundred hectares of land, ironically with sand which was bought from the waters around Batam. However, during the late 1970s, attitudes began to change in both Indonesia and in Singapore.

The technocrats realised that Singapore, located opposite Batam Island, was in a more favourable position to influence Batam Island's development than any other factor. As the decrease in oil exploration and production had reduced the viability of the oil refinery, the development of Batam Island shifted significantly towards its nearest comparative advantage, Singapore. Whilst Pertamina's plan for Batam Island had focused on competition with Singapore, the technocrats' strongly favoured linking Batam's development to Singapore. Whilst there was some debate within the government about the merits of linking Batam Island's development closely to Singapore, and about the best way to go about doing so, complementarity won at the end of the day.<sup>36</sup> Few government ministers, technocrats, nationalists and others were to believe, if they ever had, that Batam Island was viable as a competitor to Singapore, at least in the short-to-medium term.<sup>37</sup>

One of first steps towards cooperation was the conclusion of an agreement to sell sand from Batam to Singapore. Several of the harbours on Batam Island - at Batu Ampar, Sekupang and Kabil - required dredging, but Sumarlin considered the cost to be too

<sup>35</sup>Singapore Economic Bulletin, December 1978, p 50. *Straits Times*, 12 March 1979.

<sup>36</sup>Interview with Emil Salim, 18 August 1994.

<sup>37</sup>Interview with former Foreign Minister, Mochtar Kusumaatmadja, 4 August 1994.

high to be viable. By chance, the Singapore government needed over 50 million m<sup>3</sup> of sand for land reclamation, and was looking for suitable sources. In October 1976, an agreement was reached with Indonesia, whereby Singaporean firms would dredge and take sand from Batam's harbours at a cost of US\$1 m<sup>3</sup>, a figure set by Sumarlin. Both sides benefited from the agreement - Batam's harbours were dredged and Singapore obtained sand for land reclamation.<sup>38</sup>

It is important to note that the Riau Governor attempted to stop the October 1976 agreement to sell sand to Singapore by banning the selling of '*tanah dan air*' to foreigners. In what was a failed attempt to exert control over what he considered to be the preserve of local government authority, the Governor's move was aimed primarily at pressuring the central government to pass on at least part of the income generated from the selling of sand. The Governor, and his ban, were quickly over-ruled by Soeharto.<sup>39</sup>

The regulatory reforms for Batam Island introduced by the technocrats in the late 1970s were primarily aimed at creating conditions on Batam similar to those which existed in Singapore. This meant bringing facilities, regulations, procedures, taxes, infrastructure and other details into line with Singapore.<sup>40</sup> BIDA officials, too, increasingly looked to Singapore for inspiration.<sup>41</sup> For example, PT Persero Batam was copying Singapore facilities and set-up in the development of its warehouses and godowns, right down to the wording of its forms, and the colour of its trucks and vehicles.<sup>42</sup> Anything to do with the airport on Batam had to be discussed with Singapore because it lay in international airspace controlled from Singapore's Changi airfield. In fact, because of proximity to Singapore, the Batam airport was placed on a parallel course to Changi.<sup>43</sup>

Further reforms in support of the economic integration of Batam with Singapore were made, many of them following BIDA's study of Singapore's tax and regulatory

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<sup>38</sup>According to Hernomo, the cost of mining was US\$2 sq.m. of which Singapore paid S\$1 sq.m. Interview with Hernomo, 22 August 1994. Straits Times, 3 September 1976. Progres, December 1976. Kompas, 31 January 1977. Kompas, 5 May 1977.

<sup>39</sup>Interview with Hernomo, 22 August 1994. Kompas, 31 January 1977.

<sup>40</sup>Kompas, 28 September 1976. Kompas, 31 January 1977.

<sup>41</sup>Interview with Sujatmiko, 16 August 1994.

<sup>42</sup>Interview with Sujatmiko, 24 August 1994.

<sup>43</sup>The airport site in the east was originally only a temporary site, for the airport was to be in the south-west. However the plan was scrapped because of proximity to Changi and because the planned site lay directly under the Singapore-Jakarta route. The airport today remains on the site of Pertamina's temporary airstrip in the east. Interview with Sujatmiko, 24 August 1994. See also Pertamina ; Perusahaan Pertambangan Minyak dan Gas Bumi Negara, (Jakarta, July 1974), p 133. Pertamina ; Annual Report 1973/74 (Jakarta, 1974). Petroleum News, Vol.6 No.4 1975, p 16. Far Eastern Economic Review, 20 April 1979. An airport study financed by the French government was made by Sovril Avia, of France, and Balfour, of the UK. Interview with Hernomo, 22 August 1994. Kompas, 8 March 1979. BIDA ; Rencana Kerangka Dasar, Tata Ruang Pengembangan Daerah Industri Pulau Batam (Jakarta, April 1979), p 4.

system.<sup>44</sup> In May 1980, harbour and port tariffs were set lower than in Singapore.<sup>45</sup> In June 1980, liberal immigration rules for Singaporeans were introduced.<sup>46</sup> In order to create a competitive investment environment, a three-month processing of investment applications was promised, forwarded to the BKPM through BIDA, the fastest processing time promised in Indonesia.<sup>47</sup> BIDA could also issue location approvals, the right of use of land, and construction permits.<sup>48</sup> A BIDA Liaison Officer was even placed in Singapore for the purpose of promotion.<sup>49</sup>

Following talks between President Soeharto and Singapore Prime Minister, Lee Kuan Yew, on 29 November 1976, a Singapore government statement announced that the two leaders had agreed to cooperate closely in the development of Batam.<sup>50</sup> Several senior Singapore government officials, as well as businessmen, began to take an interest in the plans to develop Batam Island and began to make observation visits. The attitudes of Singaporean officials and the private sector were varied. In general there were two prominent camps - those who wanted to know how far the Indonesian government had gone in developing Batam Island and how Singapore could make use of and be involved in those activities; and those who felt that success in developing Batam Island would later mean competition for Singapore.

Nevertheless, interest in Batam expressed by Singapore business groups indicated that Batam Island was now seen more as a complement than a competitor in Singapore.<sup>51</sup> By October 1976 several Singaporean firms were reportedly negotiating with BIDA to start multi-million dollar projects following the approval of the budget by the Indonesian government.<sup>52</sup> Singaporean firms were reportedly lining up with prepared tender submissions for the construction of the oil refinery and several fabrication and light industry projects connected with it.<sup>53</sup> Singapore shipyards were negotiating to set

<sup>44</sup>Kompas, 10 November 1978.

<sup>45</sup>Surat Keputusan Menteri Perhubungan No.KM 102/PR.302/Phb-80, (30 April 1980). Surat Keputusan Ketua OPDIPB No.Kpts.0.90.UM.80, (31 May 1980). Departemen Penerangan ; Batam : Pintu Gerbang Perdagangan dan Daerah Industri Indonesia, (Jakarta, 1981), p 34.

<sup>46</sup>Leo Suryadinata ; "Indonesia in 1979 : Controlled Dissent", Southeast Asian Affairs 1980 (ISEAS, Singapore 1980), p 140. Sinar Harapan, 21 April 1982. For the changes which gave Batam Island special immigration status see Surat Keputusan Dirjen Imigrasi No.175/Sek/VIII/1980, (17 June 1980). Surat Keputusan Menteri Kehakiman No.M-01-PW.10.07-80 (7 June 1980).

<sup>47</sup>Kompas, 7 November 1978.

<sup>48</sup>The Batam Island Development Program, (Jakarta, July 1980)

<sup>49</sup>The first was Amhar Moelia in November 1978. Bulletin Pertamina, 8 December 1978 (No.49 Vol.XIV).

<sup>50</sup>Straits Times, 30 November 1976. Sinar Harapan, 30 November 1976.

<sup>51</sup>Straits Times, 24 September 1978. In July 1976 a new Singapore-Batam ferry service was inaugurated to meet the expected influx of tourists to the island when a multi-million dollar holiday project was completed. It was to be the second ferry service, yet was only to be made use of by contractors. Straits Times, 14 July 1976. Singapore Economic Bulletin, August 1976, p 41.

<sup>52</sup>These projects included transit facilities for ships, a processing centre, harbour construction and dredging, and an industrial estate. The Sunday Times, 10 October 1976.

<sup>53</sup>Straits Times, 12 October 1977. New Nation, 24 June 1978. The plan was included in Repelita III. Repelita III, Book IV, p 69-70.

up dry docks on Batam in a move to secure business from the area following a new Indonesian government ruling which stated that repairs on ships below 1,000 tonnes must be carried out in Indonesia.<sup>54</sup> Singapore also offered its services to train Indonesian workers working in Batam ports.<sup>55</sup>

Singapore Prime Minister, Lee Kuan Yew, and President Soeharto met again on 26-27 July 1978 in Bali and discussed possibilities for cooperation on Batam Island, particularly between the private sectors. Lee explained that Singapore was interested in investing in Batam, in offering electricity supply, and assisting in other fields, stressing the participation of the private sector.

There is a possibility of more cooperation in Batam, more cooperation between the private sectors of the two countries.<sup>56</sup>

### **The Revival and End of the Oil Refinery**

The original plans in 1972 for an oil refinery on Batam Island, developed by Pertamina and Japanese investors, had fallen by the wayside in 1974-1975 during a period of international recession and high prices for crude oil. By 1976, the Japanese were no longer attracted to the Batam refinery and were more interested in building an oil terminal on Lombok. According to Sumarlin, however, the opportunity still remained open for an interested party.<sup>57</sup>

Plans were revived in 1977 after Kuwait agreed to take a big stake in an oil refinery on Batam Island. In September 1977, following a June visit by an official Indonesian mission to seek finance for the oil refinery, negotiating teams from Kuwait and Indonesia agreed in principle on the outline of a US\$700-800m. oil refinery on Batam, with a capacity about twice the size of any existing Indonesian facility of 200,000 barrels a day, and in which Malaysia and Japan might also participate. To be largely financed by Kuwait, the refinery would use Kuwaiti and Indonesian crude oil as feed stock, the refined products to be marketed in ASEAN, Taiwan, Australia and Japan.<sup>58</sup> It

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<sup>54</sup>Repairs could only be carried out in Singapore if they were urgent or could not be done in Indonesia. Straits Times, 26 November 1976. A Singapore shipyard, Promet Pte Ltd, announced its plan to open a base for marine activities. Singapore Economic Bulletin, June 1978, p 27.

<sup>55</sup>Progres, December 1976.

<sup>56</sup>Straits Times, 29 June 1978. Kedutaan Indonesia di Singapura ; "Peningkatan Pengembangan Pulau Batam Dilihat dari Segi Hubungan Bilateral Indonesia-Singapura", (Singapore 1980), p 3.

<sup>57</sup>Kompas, 24 September 1976. Berita Buana, 24 September 1976.

<sup>58</sup>Kuwaiti participation in a Batam Island refinery had first been discussed in 1973 as a supplier to the planned oil refineries. US Embassy, Jakarta ; Indonesia's Petroleum Sector (July 1977). Ref : Jakarta A-80. US Embassy, Jakarta ; Indonesia's Petroleum Sector (July 1978). Ref : Jakarta A-70. Mark Johnson ; "Oil I : Recent Developments" Bulletin of Indonesian Economic Studies, November 1977 (No.3 Vol.XIII), p 45. Other sources state that the agreement in principle did not fix the cost of construction and the price and capacity of the refinery, nor the shares of the Kuwaiti, Malaysian and Indonesian sides. Asia Research Bulletin, 31 May 1978, p 445. Bulletin Pertamina, 29 September 1977 (No.39 Th.XIII). Pertamina Bulletin, December 1977 (No.12 Vol.VI).

was initially expected that construction would begin in 1978 and be completed by 1981.<sup>59</sup>

Following a state visit to Kuwait in October, during which President Soeharto had expected but did not receive finalisation of financing arrangements, the Batam Island Oil Refinery Development Team was created to oversee the construction and financing of the oil refinery, and to finalise the details of the project with Kuwait.<sup>60</sup> In June 1978, the new President-Director of Pertamina, Piet Haryono, told the DPR Commission on Mining that technical teams from the three countries involved would soon begin a detailed study of the estimated US\$800m project.<sup>61</sup>

The refinery, however, was never to come about. Whilst negotiating teams from Kuwait and Indonesia had agreed in principle on the outline of the Kuwait-backed refinery project, there were a number of points of disagreement, the most important of which was the source of the crude oil to be refined. Kuwait wanted to provide both the refinery and the crude oil, leaving Indonesia to provide the refinery site on Batam and the markets. However, Indonesia wanted the refinery to be equipped with hydro-cracking units to enable it to process heavy low-sulphur Indonesian crudes. For Indonesia it was not a particularly good deal, because the refinery was essentially to process Kuwaiti crude and to secure export and long-term markets in Southeast Asia for Kuwait.<sup>62</sup>

In January 1979 it was reported that Kuwait had abandoned its plan to finance the construction of the Batam oil refinery.<sup>63</sup> However, discussions between Indonesia and Kuwait lingered for almost two more years, as did speculation that Pertamina was examining alternative sources of financing.<sup>64</sup> No compromise could be made - Kuwait insisted on the conditions that the refinery use only Kuwaiti oil.<sup>65</sup> In November 1980,

<sup>59</sup>Kompas, 13 September 1977. Far Eastern Economic Review, 14 October 1977. Petroleum News, October 1977, p 5. Indonesian Perspectives, December 1977. Far Eastern Economic Review, 20 April 1979. See also Bulletin Pertamina, 24 February 1978 (No.8 Th.XIV). Bulletin Pertamina, 21 April 1978 (No.16 Th.XIV). Kompas, 7 April 1978.

<sup>60</sup>Far Eastern Economic Review, 14 October 1977. Bulletin Pertamina, 2 December 1977 (No.48 Th.XIII). The team was headed by Piet Haryono, and its members were representatives from the departments of finance, foreign affairs, security, Bappenas and BIDA. Keputusan Presiden No.59/1977 (15 November 1977).

<sup>61</sup>Singapore Economic Bulletin, July 1978, p 55.

<sup>62</sup>Interview with former President-Director of Pertamina, Piet Haryono, 8 August 1994. Petroleum News, May 1978, p 4. There were real questions as to Kuwait's commitment. Whilst it may have wanted to spread its eggs and create markets in East Asia, its main market was Western Europe. Interview with former Minister of Mines, Mohammad Sadli, 22 July 1994.

<sup>63</sup>No reasons were given. Kompas, 19 January 1979. Singapore Economic Bulletin, February 1979, p 25. Far Eastern Economic Review, 20 April 1979.

<sup>64</sup>US Embassy, Jakarta ; Indonesia's Petroleum Sector (May 1979). Ref : Jakarta A-48.

<sup>65</sup>In September 1980 the Emir of Kuwait and Soeharto discussed problems relating to the Batam oil refinery. Kuwait was reportedly still interested in principal in developing the oil refinery but under certain conditions, according to State Secretary Sudharmono. Pertamina Bulletin, September 1980. The Emir was told that the refinery

Kuwait officially confirmed its withdrawal from negotiations to participate in the oil refinery, and the Indonesian government put the refinery on hold indefinitely.<sup>66</sup> As Sumarlin's replacement as BIDA Chairman, Habibie, was later to remark,

If someone wants to come to build a refinery, then that is fine, let him come. But we do not particularly need a refinery. There is no reason for saying we must have a refinery.<sup>67</sup>

Under Pertamina's Masterplan it had been accepted gospel that Batam needed only one key, and massive, project in order to stimulate economic activity and attract investors. Whilst the collapse of the refinery might be thought to leave a gaping hole in development plans, for the refinery was envisaged as the keystone of industrialisation, the technocrats had pre-empted this setback by re-orienting Batam's development towards Singapore and export-oriented industries.

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After two years of evaluation, study, consolidation of existing infrastructure, and an overhauling of the regulatory environment, significant hope was placed on the future of Batam Island. Infrastructure development was to be continued - there was a main road network, telecommunications facilities, a temporary airstrip, and three harbours being developed. A host of regulatory reforms had been made to improve and facilitate development, and most importantly had reoriented future development to complementary activities with Singapore. An Indonesian government promotional booklet on Batam Island announced at the end of 1979,

We are convince(sic) that the Batam Island will become, within the immediate five years period, a vital industrial centre in this part of the world.<sup>68</sup>

The last step needed for the completion of the development strategy initiated by Sumarlin was the conclusion of an agreement with Singapore to cooperate in the development of Batam Island. This task, as well as that of general investor promotion, was handed to Dr B. J. Habibie.

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would be built by the government. Departemen Penerangan ; Batam : Pintu Gerbang Perdagangan dan Daerah Industri Indonesia (Jakarta, 1981), p 31.

<sup>66</sup>Singapore Economic Bulletin, December 1980, p 26.

<sup>67</sup>Far Eastern Economic Review, 20 April 1979.

<sup>68</sup>BKPM ; Batam : Background for Investors, Jakarta, February 1979.

## Cooperation with Singapore

On 28 August 1978, the Chairmanship of BIDA passed from Dr J. B. Sumarlin to Dr B. J. Habibie.<sup>69</sup> A German-trained engineer, few Indonesians had heard of him before his appointment as Minister for Research and Technology, and Chairman of the newly-created BPPT (Badan Pengkajian dan Penerapan Teknologi or Agency for the Assessment and Application of Technology) several months earlier.<sup>70</sup>

There were several reasons behind President Soeharto's decision to appoint Habibie. Firstly, technocratic control over Pertamina's non-oil operations was seen as temporary from the beginning. In the case of the Batam project, Sumarlin had fulfilled the role required of him. He had audited developments, restored investor confidence, and revitalised the planning and administrative frameworks for short and long term development. Habibie, on the other hand, was ideally suited to the requirements necessary to oversee the infrastructure development and promotion of Batam Island. Not only was Habibie very capable of handling the technical components required to develop Batam, such as skills-based technologies, sea and air communication and transportation, but he was considered to be a more capable promoter than Sumarlin, a consideration that was important in raising Batam Island's international profile.<sup>71</sup>

Secondly, Habibie had proven access to Soeharto, based on a relationship that went back to the 1950s.<sup>72</sup> Habibie's nationalist outlook, in the vein of Ibnu Sutowo, also sat well with Soeharto who saw him as providing a balance to the technocrats. According to Habibie, whilst Soeharto had confidence in the economic policies of BAPPENAS, he felt a need for a countervailing force on the technological side, with a longer-term and less cautious view of the benefits of science and technology.<sup>73</sup>

<sup>69</sup>Keputusan Presiden No.194/M 1978 (28 August 1978). According to one report, Habibie took up his position on 15 September 1978. Merdeka, 13 August 1990.

<sup>70</sup>In 1974, Habibie was appointed Technical Adviser to the President-Director of Pertamina on research and development in the oil industry and to ensure technological transfer and upgrading of Pertamina's technical capabilities, and later Head of Pertamina's Advanced Technology and Aeronautics Division. In the same year, Habibie was appointed Technical Adviser to the President of Indonesia, primarily for advanced technology and aeronautics.

<sup>71</sup>Interview with Emil Salim, 18 August 1994. Sumarlin was a low-profile and cautious technocrat concerned more with details. Interview with Hernomo, 22 August 1994. The BIDA account is that it was not decided to continue development of Batam until after the project had been evaluated and assessed by Sumarlin and Habibie had been appointed. Kaleidoscope, Vol.V No.9 (July 1979).

<sup>72</sup>For details, see the President's remarks in A.Makka Makmur (ed); Prof.Dr.Ing.B.J.Habibie : Half a Century (Cipta Kreatif & BPPT, Jakarta 1993), pp 5-11. In 1976, during the reorganisation of Pertamina and the settlement of its debts, Habibie requested that Pertamina's special advanced technology division be maintained, and its aeronautics section expanded and received Presidential support. He was then appointed President of the newly-created Nurtanio Aircraft Industry. Interview with Wijarso, 3 November 1994.

<sup>73</sup>Interview with Mohammed Sadli, 22 July 1994. David George McKendrick; Acquiring technological capability : Aircraft and commercial banking in Indonesia (PhD Thesis, University of California, Berkeley 1989), pp 50-51.

Habibie brought a real drive to the position of BIDA Chairman, perhaps reminiscent of Ibnu Sutowo, and finding the money for building infrastructure on Batam Island was no problem. Habibie's first operating budget was over US\$11m for financial year 1979/1980, more than the combined budget of US\$8m. for the period 1976/1977-1978/1979, and for the next decade BIDA's budget averaged at over US\$30m annually.<sup>74</sup> In a move aimed at making the island more attractive to investors Habibie boasted,

The money is there if I need it.<sup>75</sup>

One of Habibie's first moves was to stamp his personal mark and authority on BIDA. Habibie quickly replaced many of the Sumarlin appointees with those of his own. These included personnel from BPPT, such as BPPT Vice-Chairman Dr Parlin S. Napitupulu, and personal family friends, such as Panduwinarta and Dr Nikita Boekoesoe.<sup>76</sup> On Habibie's insistence, his brother-in-law, Brig-Gen Soedarsono Darmosoewito, replaced Sujatmiko as Chief Executive Officer on Batam Island.<sup>77</sup> As recompense, Soeharto appointed Sujatmiko as Indonesian Ambassador to Singapore in December 1978, bringing to the position a close familiarity with Batam Island.<sup>78</sup> Habibie finally convinced Soeharto to remove BIDA Vice-Chairman, Hernomo, in September 1981, and the position of Vice-Chairman was scrapped altogether, effectively removing an important means of government influence. Hernomo then sat on the prestigious Supreme Advisory Council.<sup>79</sup> This last personnel change finally gave Habibie full control of BIDA and was followed by a full restructuring and reorganisation of BIDA.<sup>80</sup>

Habibie was at pains to stress that his concept of developing Batam was different from his predecessors, but it was to be several years before it became clear what his concept entailed. In the meantime, he reiterated the technocrats' stance that Batam Island would

<sup>74</sup>BIDA ; Data Kemajuan Pembangunan Daerah Industri Pulau Batam s/d April 1991 (Jakarta 1991). According to a news report, APBN funds in the period under Sumarlin between 1975-1978 was Rp10.8m., and between 1978/79-1983/84 under Habibie they were to be Rp102.1m. Sinar Harapan, 28 December 1983. Increased funds probably also coincided with the implementation of the new Masterplan.

<sup>75</sup>Far Eastern Economic Review, 20 April 1979.

<sup>76</sup>Interview with Hernomo, 22 August 1994. Antara, 13 December 1983. Panduwinarta had been, until the end of 1978, Indonesian consul in Hamburg. Straits Times, 12 March 1979. Boekoesoe was a schoolboy friend's brother. A.Makka Makmur (ed) ; Prof.Dr.Ing.B.J.Habibie : Half a Century (Cipta Kreatif & BPPT, Jakarta 1993), p 124.

<sup>77</sup>Soedarsono had formerly been a First Cavalry Battalion Commander of the Siliwangi Division, and most recently Secretary of Lemhamnas. Straits Times, 12 March 1979. A.Makka Makmur (ed) ; Prof.Dr.Ing.B.J.Habibie : Half a Century (Cipta Kreatif & BPPT, Jakarta 1993), p 124. Interview with Soedarsono, 6 October 1994.

<sup>78</sup>Habibie supported Sujatmiko's appointment as Ambassador because it freed the position for his own appointee. Interview with Dr Halim, 22 August 1994. Interview with Hernomo, 22 August 1994.

<sup>79</sup>Interview with Sujatmiko, 24 August 1994. Interview with Hernomo, 22 August 1994. Keputusan Presiden No.168/M (21 September 1981).

<sup>80</sup>See the following for details. Surat Keputusan Ketua OPDIPB No.Kpts/403/UM/81 (26 October 1981). Surat Keputusan Ketua OPDIPB No.Kpts/408/UM/81 (1 November 1981). Surat Keputusan Ketua OPDIPB No.106/Set-Kpts/IX/82 (14 September 1982).

be open to all types of industry, with emphasis placed on bonded warehouses, an industrial estate, and a large tourist resort.<sup>81</sup> However, Habibie had drive and he was to bring that drive to fulfilling Soeharto's desire for cooperation with Singapore.

We have already had too many surveys...What we need is to get this thing moving.<sup>82</sup>

### Looking to Singapore

The technocrats' plan was to align Batam Island's development closely with Singapore. Having instituted various regulatory and administrative reforms required to meet Singaporean conditions, all that was further required was an agreement with Singapore to help facilitate and expedite trade and investment. Soeharto gave this assignment to Habibie who, because of his high profile, became very closely associated and identified with negotiations with Singapore for a cooperative approach.

The 26-27 June 1978 meeting between Lee and Soeharto had not only reaffirmed Singapore's 1976 commitment to cooperate on Batam, but was the first clarification that Singapore was actually interested in participating in Batam's development. The change in attitude towards Batam Island in Singapore was to be an important factor. It had become clear to Singapore that if the scheme ever developed as envisaged, the pickings for Singapore would be very substantial, and that the two islands would develop in symbiosis.<sup>83</sup> Prime Minister Lee was to scold a Singaporean reporter who suggested that Singapore might not welcome competition from Batam,

I am ashamed that a Singapore reporter should be worried about competition from Batam. If Batam can compete in any particular industry, then that industry should move from Singapore to Batam.<sup>84</sup>

On 11 March 1979, at the invitation of Habibie, Singapore Prime Minister Lee Kuan Yew together with several ministers and top government officials visited Batam Island to observe development projects. It was clear to the delegation that there was no substance to fears that Batam Island would be built to compete with Singapore, particularly considering the existing physical conditions, as well as the obvious opportunities available for Singapore.<sup>85</sup> Prime Minister Lee requested,

Please use Singapore as an example or make use of Singapore's present facilities. The more developed Batam Island is, the better it is for Singapore.<sup>86</sup>

<sup>81</sup>Far Eastern Economic Review, 20 April 1979.

<sup>82</sup>Far Eastern Economic Review, 20 April 1979.

<sup>83</sup>Donald W. Fryer & James C. Jackson ; Indonesia (Ernst Benn Ltd, London 1977) , p 191.

<sup>84</sup>Far Eastern Economic Review, 20 April 1979. Straits Times, 12 March 1979.

<sup>85</sup>Kedutaan Indonesia di Singapura ; Peningkatan Pengembangan Pulau Batam Dilihat dari Segi Hubungan Bilateral Indonesia-Singapura. (Singapore 1980), p 4.

<sup>86</sup>Kompas, 12 March 1979.

A further reason for Lee's visit was talk that a casino would be built at a tourist resort on Batam Island, apparently to generate money for BIDA coffers and pay for infrastructure development. Lee was known to be strongly opposed to casinos, particularly one in such close proximity to Singapore and catering mainly for wealthy Singaporeans. As a result of the visit and assurances from Habibie, who called casinos "un-Indonesian", Singaporean fears were allayed.<sup>87</sup>

The Singapore government had good reason for supporting the development of Batam Island. The 'Second Industrial Revolution' campaign begun in 1979, and which aimed to restructure the Singaporean economy, was encouraging industries using high-technology, and leaving behind labour-intensive industries. Inefficient or unproductive industries were being pushed to move from Singapore, mainly to Johor, Malaysia. Batam Island could be a another possible location, with the advantage that industries located on the island, like those moving to Johor, could continue to use Singapore's modern financial and administrative facilities. The Batam Island Masterplan had taken this overflow of industries from Singapore into account.<sup>88</sup> The idea was similar to what Habibie was describing as the secret to Batam's development, his 'balloon theory' - Singapore was like a balloon that expands continuously and will burst under pressure if it continues to grow at its present pace, while Batam was like a valve which could take the surplus pressure off growth in Singapore.<sup>89</sup>

There were still differences between Singapore and Indonesia. Habibie read Lee's position on his trip to Batam Island to be one of actively supporting its development,

[Lee] has given me his full support to develop Batam.<sup>90</sup>

Lee, on the other hand, believed Habibie wanted Batam Island to be tapped into Singapore,

As I understand it, [Habibie] wants conditions to mesh in with Singapore, to have a free trade zone that will allow complete compatibility with rules and regulations which are minimum in Singapore governing the movement of goods and people.<sup>91</sup>

Despite the differences, both appeared prepared to cooperate, although clearly for different reasons and understandings.

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<sup>87</sup> Far Eastern Economic Review, 20 April 1979. Interview with Soedarsono, 6 October 1994. Interview with Hernomo, 22 August 1994.

<sup>88</sup> OPDIPB ; Rencana Kerangka Dasar, Tata Ruang Pengembangan Daerah Industri Pulau Batam (Jakarta 1979), p 3.

<sup>89</sup> Far Eastern Economic Review, 20 April 1979.

<sup>90</sup> Asiaweek, 26 October 1979.

<sup>91</sup> Straits Times, 12 March 1979.

Prime Minister Lee's March 1979 visit to Batam Island was to revive much interest in the island's development, and was to raise the attention of Singaporeans about the possibility of becoming active on Batam Island.<sup>92</sup> As Habibie said,

If there was no interest, certainly Prime Minister Lee wouldn't come to Batam.<sup>93</sup>

Observation visits by both private sector individuals and association groupings increased dramatically, including those in garments, electronics, engineering and banking.<sup>94</sup> One of the largest was a 37-member mission from the Singapore Sawmillers Association in September 1979, which was keen to set up a large sawmilling and timber working complex on Batam in partnership with Indonesian interests.<sup>95</sup>

However, whilst there was increased interest - some 50-70 applications to invest on Batam Island had apparently been made by Singaporeans<sup>96</sup> - no new investments had been realised since 1976. According to the Indonesian Ambassador to Singapore, Sujatmiko, most prospective investors were waiting for clearer regulations to be put in place, as well as the further development of infrastructure.<sup>97</sup> The Masterplan, recognising that new investment would not be forthcoming until there were clearer rules and regulations, had already called for regulatory changes.<sup>98</sup> According to an expatriate businessman on Batam,

...there is interest in Batam but the feeling is that the Indonesians are moving too slowly.<sup>99</sup>

A major problem was the rudimentary nature of infrastructure on Batam Island, in particular the absence of adequate power and water supplies.<sup>100</sup> Each of the companies which had set up a plant on Batam had constructed or was installing its own electrical generating system, and pumping their own water. All of these were large companies which could afford to prepare their own infrastructure, and provide their own water and power supply.<sup>101</sup> However, most Singaporean companies were small and medium-sized and lacked the resources to build their own facilities and utilities, and most, it

<sup>92</sup>Straits Times, 8 March 1979.

<sup>93</sup>Kompas, 8 March 1979.

<sup>94</sup>In August 1979, 43 public works officials from the Administrative Services Association of Singapore (ASAS) made a study tour of Batam. Asiaweek, 26 October 1979.

<sup>95</sup>Straits Times, 8 September 1979. Lim Joo Jock; "Singapore in 1979: Bold internal decisions, Emphatic external outlook" Southeast Asian Affairs 1980 (ISEAS 1980), p 277.

<sup>96</sup>OPDIPB; Rencana Kerangka Dasar, Tata Ruang Pengembangan Daerah Industri Pulau Batam (April, 1979), p 12.

<sup>97</sup>Kompas, 12 April 1979.

<sup>98</sup>OPDIPB; Rencana Kerangka Dasar, Tata Ruang Pengembangan Daerah Industri Pulau Batam (April, 1979), p 12.

<sup>99</sup>Asiaweek, 26 October 1979.

<sup>100</sup>For details of existing infrastructure, see BIDA; The Batam Development Program (Jakarta, 1980), pp 33-37. For example, harbour depths at Batu Ampar were said to be not attractive. Asiaweek, 26 October 1979.

<sup>101</sup>Kedutaan Indonesia di Singapura; Peningkatan Pengembangan Pulau Batam Dilihat dari Segi Hubungan Bilateral Indonesia-Singapura (Singapore 1980), p 4.

appeared, were prepared to wait for the physical infrastructure to be finished as well as for other facilities and regulations.<sup>102</sup> Since the investment and regulatory climate on Batam Island was essentially the same as for the rest of Indonesia - essentially the only difference was its designation as a bonded zone - investors who did not or could not wait went elsewhere in Indonesia, mainly to Jakarta and West Java where infrastructure was better developed, or remained waiting in the wings.<sup>103</sup>

Habibie had acknowledged in November 1978 that it would be cheaper to buy electricity from Singapore than to develop power stations on Batam, and discussions on the possibility of Singapore supplying electricity and water to Batam Island were held over 1978-79.<sup>104</sup> In October 1978, talks were held between Singapore's Public Utilities Board and Indonesia about a proposal for Singapore to supply electrical power for the development needs of Batam. It was initially hoped that an agreement to buy electricity would be signed in early 1979, while discussions about the supply of water were to continue, because studies were still being made to determine if Batam Island could supply itself through a network of dams. These discussions were put forward as proof that Indonesia did not intend to develop Batam in competition with Singapore, but as a partner in the spirit of ASEAN cooperation.<sup>105</sup>

Lee reiterated on his March 1979 visit to Batam Island that Singapore was prepared to supply electricity to Batam Island; however negotiations became marred by disagreement. There were two choices for the supply of electricity - Indonesia could make a capital investment of US\$17m to pay for a cable link between Singapore and Batam Island, in which case Singapore would only sell the electricity to the island; or alternatively, Singapore would finance the capital investment, which meant that electricity would come to Batam Island at a higher rate in order to pay for the cable.<sup>106</sup> However, an agreement was never reached, not simply because Indonesia wanted Singapore to install the cable to Batam and would pay only the cost of the internal cable on the island, but because the agreement needed to be a long-term one for Singapore, and BIDA could not predict future consumer demand.<sup>107</sup>

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<sup>102</sup>Departemen Penerangan ; Batam : Pintu Gerbang Perdagangan dan Daerah Industri Indonesia (Jakarta, 1981), p 10.

<sup>103</sup>BIDA, The Development of Batam Island (Jakarta, 1979), p 2.

<sup>104</sup>Far Eastern Economic Review, 20 April 1979.

<sup>105</sup>Straits Times, 25 October 1978. Kompas, 7 November 1978. New Nation, 8 November 1978. Kompas, 8 March 1979.

<sup>106</sup>Straits Times, 12 March 1979. Kompas, 12 April 1979. Far Eastern Economic Review, 20 April 1979. Leo Suryadinata ; "Indonesia in 1979 : Controlled dissent" Southeast Asian Affairs 1980 (ISEAS 1980) , p 140.

<sup>107</sup>It was difficult to guess the number and type of industries in advance, and the costs of any oversupply or lack of demand could be very high. Interview with Hernomo, 22 August 1994.

**Table 4.1**  
**Foreign Companies on Batam Island**  
**(as at 31 August 1979)<sup>108</sup>**

<b>In Operation</b>		
PT McDermott Indonesia 86% McDermott - USA 14% Bob Hasan - Indonesia	USA	Offshore Steel Structure Construction
PT Dresser Magcobar Indonesia <sup>109</sup> 90% Dresser Industries Inc - USA 10% Pertamina	USA	Drilling Mud Production
PT Chicago Bridge and Iron Indonesia <sup>110</sup> 49% Chicago Bridge and Iron - USA 51% Pertamina	USA	Engineering Services and Supplies
PT Patra Vickers Indonesia <sup>111</sup> 50% Vickers Ruwolt Pty Ltd - Australia 50% Pertamina	Australia	Machine repairs, Spare parts supplier
PT Avlau Fabricators Indonesia <sup>112</sup> 49% Avery Lawrence - Singapore 51% Pertamina	USA	Engineering Services and Supplies
PT Toyo Kanetsu Indonesia <sup>113</sup> 35% Toyo Kanetsu KK - Japan 14% Nissho-Iwai Co. Ltd - Japan 51% Pertamina	Japan	Steel Tank Fabrication
PT Milchem Indonesia	Bahamas	Drilling Mud Production
PT Bataves Fabricators	Panama	Oil Production vessels
Taisei International Corporation Taisei Corporation - Japan	Japan	Building Contractor
<b>In Preparation</b>		
PT Indonesian Specialised Carriers		Sea Transportation
PT Drilling Bits Indonesia		Drilling Bits Production
PT Batam Resort	Singapore	Tourism and Recreational Facilities
PT Tongkat Mas Indonesia Tong Holdings - Singapore PT Masari Karya - Indonesia	Singapore	Tourism Complex

<sup>108</sup> BIDA ; The Development of Batam Island (Jakarta, 1979), pp 6-8. Departmen Penerangan ; Batam : Pintu Gerbang Perdagangan dan Daerah Industri Indonesia (Jakarta, 1980), pp 29-37. BIDA ; The Batam Island Development Program (Jakarta, July 1980), pp 41, 43, 44-45, 47. A further 17 foreign companies were under application.

<sup>109</sup> BNPT No.361 - 1971. BNPT No.314-1974.

<sup>110</sup> BNPT No.311 - 1974.

<sup>111</sup> BNPT No.274 - 1974.

<sup>112</sup> BNPT No.136 - 1977.

<sup>113</sup> BNPT No.279 - 1975.

By the end of 1979 there were 9 foreign firms, and 31 domestic private companies in operation on Batam Island (See Tables 4.1 and 4.2). According to Habibie, there were also about 50 applications from foreign companies to invest capital on Batam Island through joint ventures.<sup>114</sup> Besides Singapore, attempts were made to woo American, European and Japanese multinationals; Habibie toured several countries in Europe and the United States in August 1979 in a bid to attract investors.<sup>115</sup> Habibie called on US industrialists to invest on Batam because it had all the "facilities one can get in Singapore" and could "offer more interesting conditions with cheaper Indonesian workers."<sup>116</sup>

**Table 4.2**

**Domestic Companies on Batam Island  
(as at 31 August 1979)<sup>117</sup>**

PT Kurnia Dwi Putra Ibrahim Adjie	Contractor
PT Karana Line Bob Hasan	Shipping
PT Batu Batam Nusantara <sup>118</sup> 80% Abdurrani Junus 20% Tukiman Tugiono	Brick Factory
PT Sibasco <sup>119</sup> 80% Haji Abihasan Said 10% Haji Mohammad Zen 5% Sjaifullah 5% Nona Sririyanti	Shipping/Cargo Handling
PT Caputra Enterprise Ltd <sup>120</sup> Heru Pramono Nudin Hardi Oey Eng Tie	Contractor

<sup>114</sup> Straits Times, 6 December 1979. On another occasion, Habibie said that 35 businesses were operating, 3 were under construction, and 17 applications had been submitted. Kompas, 21 May 1979. According to BIDA there were only 17 applications from foreign companies. The Batam Island Development Program (BIDA, July 1980), pp 41, 43.

<sup>115</sup> Straits Times, 22 September 1979. Foreign Ambassadors and representatives from various embassies, as well as business delegations also visited. These included the German, South Korean and Singapore Ambassadors, and representatives from the French, Japan, and US embassies. Their main queries were about infrastructure and regulations. Kompas, 7 November 1978. A Belgian delegation visited the island in March 1979. Asia Research Bulletin, 31 March 1979, p 545. In addition, 41 world bankers, many of whom had been asked to supply credit for investment in Batam, visited Batam Island in May 1979. Kompas, 21 May 1979.

<sup>116</sup> Asia Research Bulletin, 31 March 1979, p 545. A US Economic Mission, sponsored by the Overseas Private Investment Corporation, toured Batam in November 1978. Straits Times, 5 November 1978.

<sup>117</sup> BIDA ; The Development of Batam Island (Jakarta, 1979), pp 6-8. Departmen Penerangan ; Batam : Pintu Gerbang Perdagangan dan Daerah Industri Indonesia (Jakarta, 1980), pp 29-37. BIDA ; The Batam Island Development Program (Jakarta, July 1980), pp 41, 43, 44-45, 47. A further 24 domestic companies were under application. Excludes Pertamina, government offices and banks.

<sup>118</sup> BNPT No.71 - 1974.

<sup>119</sup> BNPT No.304 - 1975.

<sup>120</sup> BNPT No.282 - 1972.

PT Elham Batam Base <sup>121</sup> 30% Abubakar Bastari 30% Haji Loth Hamid 20% Hanafie 15% Haji Mohammad Zen 5% Daniel Burhanuddin	Shipping/Cargo Handling
PT Pratama Raya Engineering	Machinery and Vehicle Repair
PT Natoputra Wira	Contractor/Labour Supplier
PT Trakindo Utama	Heavy equipment workshop
PT Pangan Sari Utama	Beef and Meat processing
PT Gandrich Navigation	Shipping
PT Elham Fortune Lines	Shipping
PT Esquarada	Cargo Handling
PT Mustika Batam Service	Travel Service
PT Delta Service	Travel Service
CV Aneda	Building materials supply
PT Layani Raya	Restaurant
CV Putra Syameru	Building materials supply
PT Laksana Samudra Raya	Contractor/Supplier
PT Mas Putra	Export
PT Insum Jaya	Supply
PT Mirani Navigation	Ferry service
PT Aquaria Shipping	Shipping
PT Sulita Lines	Shipping
PT Gesuri Lloyd	Shipping
PT Batmar	Cargo Handling
PT Karya Agung	Contractor
PT Jaya Trade Indonesia	Contractor
PT Meta Epsi Engineering	Contractor

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<sup>121</sup> BNPT No.550 - 1975.

However, whilst there was interest from investors in Batam Island, the general feeling was reportedly that Indonesia was moving too slowly on the development of infrastructure and regulatory reform.<sup>122</sup> This was acknowledged by Habibie, who predicted that Batam Island would need at least ten years to become adequately utilised.<sup>123</sup> Growing cooperation with Singapore, however, meant that the plans for Batam Island had a good chance of getting off the ground, even though they were still little beyond the embryonic stage, and faced possible political obstacles, particularly from nationalist groups in Singapore and Indonesia.<sup>124</sup>

### **The Batam Cooperation Agreement**

Prime Minister Lee Kuan Yew and President Soeharto met in Singapore on 17-18 September 1979 to discuss Singapore's interest in the development of Batam Island. Lee had concluded that Singaporean industries which wished to move to Batam Island could not afford to pay for the necessary infrastructure themselves, and as Batam needed help in building infrastructure, Singapore's position, more or less, was a preparedness to invest in infrastructure development.<sup>125</sup> Lee told Soeharto that Singapore wanted to help to invest capital in Batam Island,

provided it was allowed to handle the management for the construction of infrastructure on the island.<sup>126</sup>

Lee's willingness to cooperate on Batam Island was initially met with a positive but cautious response by the Indonesian government. Habibie announced that Indonesia welcomed Singapore's participation in Batam's infrastructure development, and that Singapore was willing to invest as much as US\$1 billion during the next 10 years in the island's development, a claim never denied by Singapore.<sup>127</sup> Soeharto's response was simply that the proposal would first be studied.<sup>128</sup> The proposal was discussed by the Indonesian cabinet on 20 September, but due to the fierce reaction the proposal received in Indonesia, a decision was withheld and it was announced that Singapore's proposal would be studied further.<sup>129</sup>

The public response to Singapore's proposal in Indonesia was far from positive. Singapore's reported desire for involvement not only in industrial projects but also in

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<sup>122</sup> Asiaweek, 26 October 1979.

<sup>123</sup> Kompas, 21 May 1979.

<sup>124</sup> Far Eastern Economic Review, 20 April 1979.

<sup>125</sup> Kedutaan Indonesia di Singapura ; Peningkatan Pengembangan Pulau Batam Dilihat dari Segi Hubungan Bilateral Indonesia-Singapura (Singapore 1980), p 5.

<sup>126</sup> New Nation, 17 September 1979. Straits Times, 19 September 1979. Straits Times, 20 September 1979. Far Eastern Economic Review, 19 October 1979.

<sup>127</sup> Far Eastern Economic Review, 19 October 1979.

<sup>128</sup> Straits Times, 20 September 1979.

<sup>129</sup> Straits Times, 22 September 1979.

the management of Batam's utilities infrastructure - in response to Indonesian requests for Singaporean participation on Batam - was construed by some Indonesian politicians, and the Indonesian public, as a means of territorial expansion.

Several Indonesian leaders moved quickly to pacify criticisms of the Singapore proposal, and to quell any ill-feeling toward Singapore. Secretary of State, Sudharmono, explained that Singapore's proposal was only intended to guarantee the return of capital invested in Batam, and that it could be carried out through the foreign capital investment law or through management cooperation.<sup>130</sup> Vice-President, Adam Malik, expressed understanding for Singapore wanting to guarantee returns for their investment.

We had better study the proposal first before making any comment. The proposal may not have negative motives as some people here suggested.<sup>131</sup>

Despite these efforts, criticism erupted in Indonesia, spurred by several leading, particularly nationalist, figures who criticised the proposal and called on the government to reject it. In the Indonesian parliament, opposition parties questioned the government on the management of Batam Island, as if Indonesia would lose sovereignty over the island. Dr Chalik Ali of the United Development Party (PPP) accused Singapore of planning to make Batam its satellite, saying Singapore's desire to run the management might be a long-term plan for territorial expansion through economic expansion.<sup>132</sup> Information Minister, Ali Murtopo, was quoted as saying,

If [the joint development of Batam] should involve our sovereignty, we had better not do it.<sup>133</sup>

Habibie quickly shifted positions, describing the proposal as "very shameful indeed", and describing Singapore as being in a very vulnerable position, stressing that Indonesia was by no means dependent on Singaporean support.

Soon Singapore will be ready to develop [Batam] simply because it needs to...We could ask for loans from commercial banks or from the ADB or the World Bank. They would surely be willing as the prospects for Batam are very bright.<sup>134</sup>

<sup>130</sup> Straits Times, 20 September 1979.

<sup>131</sup> Straits Times, 22 September 1979. Far Eastern Economic Review, 19 October 1979.

<sup>132</sup> Straits Times, 22 September 1979. Leo Suryadinata; "Indonesia in 1979: Controlled dissent" Southeast Asian Affairs 1980 (ISEAS 1980), p 140. Lim Joo Jock; "Singapore in 1979: Bold internal decisions, Emphatic external outlook" Southeast Asian Affairs 1980 (ISEAS 1980), p 278.

<sup>133</sup> Straits Times, 22 September 1979. Far Eastern Economic Review, 19 October 1979. Another source quoted Murtopo as saying, "If it's thought that this matter [Singapore's participation in Batam's development] could affect Indonesia's sovereignty, it's better to forget the whole thing." Asiaweek, 26 October 1979.

<sup>134</sup> Asiaweek, 26 October 1979.

One Jakarta editorial stressed that the Batam project must be kept by Indonesia at all costs. It argued that whilst Singapore may have the capability,

the political and strategic position of the island is too important to be easily given away to foreign governments and enterprises to be developed and managed...It is inconceivable that Indonesia, with its vast human and natural resources, cannot do it by itself.<sup>135</sup>

A more moderate Indonesian editorial view was that,

Singapore's position as an economic role holder is becoming more sensitive, as its location is pressed by Malaysia and Indonesia, which both possess rich natural resources and manpower. Therefore there is no other alternative for Singapore but to cooperate. In view of its experiences, Singapore feels that it is only appropriate if they are used to develop the Batam Island.<sup>136</sup>

The reaction in Singapore was for the most part defensive of Lee's proposal. The *Business Times* said,

Now is not the time for nationalistic sentiments to dominate issues unreasonably. In the context of regional development, it makes eminently good sense for Batam to be developed using techniques developed through years of trial and error in Singapore's own pioneering efforts in industrial infrastructure.<sup>137</sup>

Amidst the strong domestic outcry in Indonesia, Habibie visited Lee on 22 November 1979 to talk further about how Singapore and Indonesia could cooperate in Batam's development. Habibie brought to the discussions his concept of mutual cooperation, based along the lines of the Benelux economic association. Whilst he had in mind the model of cooperation among the Benelux countries, Habibie reiterated that it had to be recognised that Batam Island was still part of Indonesia. Most importantly, however, the discussions led to negotiations between the two countries for an agreement covering the development of Batam.<sup>138</sup>

In December, Indonesia announced that an inter-departmental team had been set up to draft the form of projected cooperation between Indonesia and Singapore in the development of Batam and to identify possible problems with such cooperation.<sup>139</sup> It was generally expected that the team would recommend that restrictions on the movement of goods and people between Singapore and Batam be relaxed, and that this

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<sup>135</sup> *Kompas*, quoted in *Far Eastern Economic Review*, 19 October 1979.

<sup>136</sup> *Asiaweek*, 26 October 1979.

<sup>137</sup> *Asiaweek*, 26 October 1979.

<sup>138</sup> *Straits Times*, 3 November 1979. *Straits Times*, 26 November 1979.

<sup>139</sup> *Straits Times*, 6 December 1979. The team was made up representatives from Internal Affairs, Foreign Affairs, Trade and Cooperatives, Communication, Research and Technology, BAKIN, BKPM, Bank of Indonesia, BIDA, Justice, Industry, Finance, Security and Defence. Departemen Penerangan ; *Batam : Pintu Gerbang Perdagangan dan Daerah Industri Indonesia* , (Jakarta 1980), p 25.

could form the basis of an agreement on the joint development of Batam by Indonesia and Singapore.<sup>140</sup> Alternatively, the Indonesian Cabinet could decide that Indonesia should act unilaterally and implement the proposals without consulting the Singapore government.

In late June 1980 the Indonesian Foreign Ministry submitted a draft agreement on Batam Island to the Singapore Ministries of Trade and Industry, and Foreign Affairs. Interestingly, the agreement was only considered to be a trade and economic issue in both Indonesia and Singapore, and the role of the foreign ministries was simply to facilitate contact.<sup>141</sup> With a draft agreement in hand, Singaporean and Indonesian officials began selling the idea to their own domestic constituents and to their neighbours, aiming in particular at the nationalists in Indonesia.

In July 1980, Lee Kuan Yew visited Jakarta, and discussed the draft agreement with Soeharto. Whilst no problems were expected, Lee was anxious to take care when handling the issue of Batam Island by clarifying Singapore's role and reiterating Singapore's support at the press conference, "lest there be a misunderstanding by the Indonesian press at a later stage"<sup>142</sup> Lee stressed that Batam Island would be managed solely by Indonesia, and explained that the Singapore government would give facilities to aid the development of Batam Island and encourage investment, but while the Singapore government would favour and support the project and encourage investors, it would not invest directly. Lee announced,

I would like to add a clarification. It is not the Singapore government that is going to make any investment in Batam infrastructure and manufacturing projects. The Singapore government does not invest in any projects. We are not manufacturers. We agreed that the infrastructure of Batam would be managed and will be the responsibility of the Batam Corporation. What Singapore will do is to facilitate the movement of goods, persons, communications and materials between the Republic and Batam or encourage our investors and other investors to go to Batam.<sup>143</sup>

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<sup>140</sup> New Nation, 28 February 1980.

<sup>141</sup> Interview with Mochtar Kusumaatmadja, 4 August 1994. Interview with former Singapore Foreign Minister, S. Rajaratnam, 28 September 1994.

<sup>142</sup> Straits Times, 5 July 1980.

<sup>143</sup> Straits Times, 5 July 1980. Singapore Economic Bulletin, August 1980, p 61. Lee Lai To ; "Singapore's continuous search for quality" Southeast Asian Affairs 1984 (ISEAS 1984), p 293. Another source quotes, "The Singapore Government does not invest in any projects. We are not manufacturers. We have agreed that the infrastructure of Batam will be managed and will be the responsibility of the Batam Corporation...The decision for investment will be made by the investors themselves. We do not tell our investors whether or not they should invest. We are telling them to consider Batam seriously because it is in Singapore's interests. But the investment decision is made by our own investors. Please note that." Far Eastern Economic Review, 11 July 1980. Kompas, 5 July 1980.

Lee also stressed that it was in Singapore's interest that Batam Island be developed, and that any development would be complementary.

I think there should be another hub for economic and industrial activity in the Riau islands. We are not competing. We are playing complementary roles.<sup>144</sup>

Indonesian government officials also sought to convince those Singaporeans suspicious of Indonesia's motives.

Batam is not aimed at [competing with] Singapore. It is a project which will benefit all ASEAN members. Batam will not be another Sabang experiment.<sup>145</sup>

In August 1980, Lee further explained Singapore's role to the Antara News Agency :

The Singapore government will facilitate the movement of goods and personnel, and help in transport and communications between Batam and Singapore, so that private investors from Singapore, America, Europe and Japan can set up factories in Batam. The Singapore government has not been asked to and has no plans for any projects in Batam...However, what is crucial is not the Indonesia-Singapore agreement as such, but whether investors from Singapore, America, Europe and Japan will build factories in Batam because they find harbours, telephones, telexes, power and water supplies adequate, and labour, both skilled and unskilled, abundant and productive, so that their investments are profitable and secured.<sup>146</sup>

Batam Island had generated a great deal of public interest and expectations in Indonesia. Some in the government were disappointed that the Singapore government could not be a direct investor, having expected substantial assistance from Singapore in the industrial development of Batam Island. Indonesia wanted the Singapore government to be directly involved in Batam as a solid demonstration of confidence in the future of the island's industrialisation. This would in turn generate faith in Batam among other investors, like Japan and Germany, who were displaying much enthusiasm for projects there. Others believed that Singapore wanted a clearer picture of regulations governing investments in the island before committing itself to projects. While government circles generally welcomed investments from Singapore, others, including the influential nationalist groups, were against any form of Singaporean "management".<sup>147</sup>

However, despite the fact that nationalist circles continued to accuse Singapore of trying either to block the development of Batam because it might become a successful

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<sup>144</sup> Straits Times, 5 July 1980. Another source put it as, "It is important to stress that Batam is not a project for which we compete, but where we share complementary roles." New Nation, 4 July 1980.

<sup>145</sup> Straits Times, 1 July 1980.

<sup>146</sup> Singapore Economic Bulletin, September 1980, p 24.

<sup>147</sup> New Nation, 4 July 1980. Straits Times, 5 July 1980.

rival, or alternatively of trying to take over the project, Singapore's apparent sensitivity to Indonesian nationalist feelings, expressed through Lee's clarifications, defused Batam as an issue in Indonesian domestic politics.<sup>148</sup> Whilst the view in an earlier Kompas editorial was that it would be difficult to accept technical and financial aid from Singapore without Batam Island being turned into a satellite of another country, the revised view was that,

Indonesia-Singapore cooperation benefits both parties. For Indonesia, which has such a big land area, its readiness to provide Batam for cooperation indicates its strong desire for regional cooperation. For Singapore, which has more experience and is higher skilled, cooperation with Indonesia also has its advantages.<sup>149</sup>

On 30 October 1980, Indonesia and Singapore signed a five-year "Batam Cooperation Agreement", which allowed for the free movement of goods, individuals and services between Singapore and Batam Island. (See Appendix A) The agreement was signed by Goh Chok Tong, Minister for Trade and Industry, who was in charge of Batam negotiations, and Sujatmiko, Indonesian Ambassador to Singapore.<sup>150</sup>

Based very closely on the draft prepared by Indonesia, the Batam Cooperation Agreement was considered a general umbrella agreement, with the overall aim of simplifying procedures covering the flow of goods and services, the movements of people, as well as easing the flow of capital used for the development of Batam, with the overall aim of speeding up the development of Batam whilst leaving it to both sides to take the necessary steps to assist in developing the island.<sup>151</sup> Essentially the agreement was a commitment by Singapore to support Batam's development, and by Batam to use Singapore's facilities.<sup>152</sup> The agreement, however, avoided the issues of Singaporean management or assistance with infrastructure development.

Whilst it was hoped that the agreement would act as catalyst to encourage more investors to Batam, most importantly it was seen as a further manifestation of the excellent relationship between the two countries.<sup>153</sup> The agreement was seen as an important step towards greater economic cooperation, representing a sign of the fresh

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<sup>148</sup> Far Eastern Economic Review, 11 July 1980. Leo Suryadinata ; "Indonesia in 1980 : Continuity rather than change" Southeast Asian Affairs 1981 (ISEAS 1981), p 143.

<sup>149</sup> Kompas, quoted in New Nation, 14 July 1980; and Straits Times, 18 July 1980. See also an Indonesian editorial after the announcement of the agreement. Berita Buana, 3 November 1980.

<sup>150</sup> Straits Times, 31 October 1980. Indonesian Observer, 1 November 1980. The agreement was formalised by Keputusan Presiden No.64 1980 (21 November 1980).

<sup>151</sup> Interview with Sujatmiko, 24 August 1994. Lim Joo-Jock ; "Singapore in 1980 : Management of foreign relations and industrial progress" Southeast Asian Affairs 1981 (ISEAS 1981), p 276. An outline and analysis of the agreement can be found in Straits Times, 31 October 1980.

<sup>152</sup> Interview with Gunawan Hadisusilo, 10 August 1994.

<sup>153</sup> Singapore Economic Bulletin, December 1980, pp 26-27.

approach of complementary development rather than that of competition and rivalry. Sujatmiko believed that,

The signing of the agreement is a significant event in our bilateral relations because it means we are moving forward and that we are dynamic in fostering cooperation between the two nations...Indonesia could benefit from Singapore's skills and experience with technology, while Singapore would be able to use existing facilities in Batam to expand its industrial and commercial activities. Since the development of Batam is focused on labour-intensive industries in its initial stages, it will not compete with the capital-intensive industries that characterise the future development of Singapore's economy.<sup>154</sup>

Singapore Minister for Trade and Industry, Goh Chok Tong, said at signing ceremony, Batam has potential for development as it has a strategic location. It is, moreover, not cluttered by industries, settlements and other unplanned physical structures. It is better than what Singapore's Jurong industrial estate was in the sixties. Its development hinges only on the vision and boldness of its planners and the zeal and ability of its administrators. We shall try to assist its development. We view the development of Batam as mutually beneficial. We believe that Batam will complement Singapore's economic development. There will be some competition in some areas but competition is good for the soul of development when carried out within the market framework.<sup>155</sup>

A Straits Times editorial gave a sobering analysis :

By itself, the document may be regarded as no more than an expression of intent by the two governments to work together...But it can also be seen as a political commitment by the two sides to Batam's development and that should remove some of the reservations shown in the past by would-be investors...This is not to say that the agreement has removed all obstacles or solved all problems...It is up to the promoters of Batam development to ensure that the red tape which now inhibits many investors is quickly removed. More important, much more needs to be done to develop the limited infrastructure on Batam. Industry cannot properly operate without assured supplies of power and water. Nor can it do without an adequate network of roads, ports and other communications facilities. All these will take years to develop and it will no doubt be some time before Batam takes off. How soon or how late this will happen depends a great deal on political will of the promoters. The agreement signed yesterday was a useful beginning. But it was only the first step of a long journey, and those who want Batam to succeed should ensure that what has been achieved so far is not bogged down by complacency or bureaucratic inertia.<sup>156</sup>

<sup>154</sup> Straits Times, 1 November 1980. Asiaweek, 14 November 1980. Singapore Economic Bulletin, December 1980, p 26.

<sup>155</sup> Straits Times, 1 November 1980. New Nation, 31 October 1980. Text of the speech by Goh Chok Tong at the signing of the Batam Agreement on 31 October 1980, in Singapore Economic Bulletin, December 1980, p 10.

<sup>156</sup> Editorial. Straits Times, 1 November 1980.

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Under the guidance of Sumarlin and the technocrats, the development of Batam Island had been totally reoriented from an industrial area focused on oil activities to a broader vision of an integrated industrial, manufacturing and tourist area focused on exports. Despite the passing of the Batam mantle to Habibie, the technocrats' vision of complementary activity with Singapore continued to be pursued, culminating in the conclusion of the Batam Agreement. It appeared that Batam Island was on the verge of an investment boom.

With the conclusion of the Batam agreement, the Indonesian government hoped that much new investment on Batam Island would come from Singapore-based labour-intensive industries which were being phased out as Singapore set its sights on a high-technology based industrial sector. Indeed, the Batam Agreement did boost investor interest in Batam Island, particularly in the period immediately following its signing. According to the Indonesian Embassy in Singapore, some 130 businessmen visited Batam in November and December 1980, and in early 1981 approximately 30 Singapore businessmen were observing Batam every week.<sup>157</sup>

However, despite the hopes generated by the Batam Agreement, it was hard to see how Jakarta would be able to breathe much life into the Batam venture, and it was difficult to see how Singapore could make a firm commitment on Batam even if it was inclined to do so, particularly as the Singapore government had been excluded from any direct participation in the development of the island. Whilst investors' general impressions of Batam Island were positive, Batam was hampered by inadequate infrastructure and red-tape.<sup>158</sup> More importantly, two key pieces of information remained to be announced - details of further regulatory reforms to be introduced, and what types of industries were allowed. Those details no longer remained in technocratic hands, and when Habibie finally made them available, Batam was no longer the investment location envisaged by the technocrats.

### **Policy-making**

The policy-making processes for Batam Island during the period 1976-1980 displayed most of the prevailing features of Indonesian political economy. Decision-making was highly centralised, dominated by the President, Patrimonialism and Intra-elite Politicking, but other features also came into play, both pluralist and external.

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<sup>157</sup> *Sinar Harapan*, 11 January 1981.

<sup>158</sup> *Indonesia Times*, 4 November 1980. *Kedutaan Indonesia di Singapura ; Peningkatan Pengembangan Pulau Batam Dilihat dari Segi Hubungan Bilateral Indonesia-Singapura*. (Singapore 1980), pp 6, 8.

Soeharto, at the apex of the Indonesian political structure, continued to be the key player in the policy-making processes for Batam Island. With the removal of Ibnu Sutowo, Soeharto became the figure most closely identified with the Batam project, and was to become its strongest advocate. The project was headed by his appointees, and they remained in those positions for only as long as he desired. Initially Sumarlin was appointed to assess and revitalise the project, and when Soeharto was satisfied that his duty had been fulfilled, he appointed Habibie as BIDA Chairman. Soeharto demonstrated his power most clearly where there was conflict among his ministers, such as over the granting of duty-free status to Batam, a conflict into which he forcefully intervened.

With room to manoeuvre, Sumarlin and the technocrats stamped their influence heavily on the Batam project. This was obvious in the types of changes enacted for Batam - regulatory reform, a new Masterplan and a new course of development focused on exports and complementarity with Singapore.<sup>159</sup> The development strategy was explained by technocrat and BKPM Chairman, Barli Halim, who called for labour-intensive investments to move to Batam Island from Singapore and a greater role for the private sector.<sup>160</sup>

...[W]e prefer labour-intensive industries which are export-oriented...We encourage private enterprise from abroad as we know from experience that progress can be made faster by experienced private enterprise than by most Government-controlled industries.<sup>161</sup>

Interestingly, and in a neat twist to prevailing views of intra-elite politicking, the policy debates for Batam Island illustrated that the situation at the planning stages was far more fluid than the categories 'technocrats' and 'nationalists' would imply, for division in the technocrats' ranks were evident. This was demonstrated by the conflict between Ali Wardhana and other technocrats over the issue of Batam's duty-free status.

One feature of Indonesian politics clearly missing from Batam Island during this period was the kind of clientelistic alliances and forms of patronage that had so clearly dominated the landscape under Ibnu Sutowo and Pertamina. There were perhaps several reasons for this. Firstly, there was little new investment on Batam because of the downturn in oil industry activity, thus removing a source of patronage for possible patron-client relationships. Secondly, the budget for Batam was so limited that there was little available funds for distribution as patronage. Lastly, the technocrats were not known for distributing patronage or developing their own alliances with domestic or

<sup>159</sup> Interview with Mochtar Kusumaatmadja, 4 August 1994. Interview with Emil Salim, 18 August 1994.

<sup>160</sup> *Straits Times*, 10 June 1983.

<sup>161</sup> BIDA ; *The Batam Development Program* (Jakarta, July 1980), p7.

foreign businessmen. Clientelistic alliances were, however, to reappear on Batam Island under the guidance of state-led nationalist development policies.

It was the technocrat's focus on Singapore, however, which was to most influence Soeharto. He became convinced not only of the economic benefits for Batam through a complementary approach but of the benefits to Indonesia-Singapore relations as a whole. That this was the case became clear after the appointment of Habibie who, despite his nationalist credentials, pursued the completion of an agreement on Batam with Singapore upon Soeharto's insistence.

A relative newcomer to the Indonesian political scene, Habibie was quick to demonstrate his influence with Soeharto. This was most clearly illustrated by the way in which he lobbied for the removal of Sujatmiko and Hernomo from BIDA in order to make the positions available for his own appointees, something that Sumarlin did not have either the inclination or influence to do.

Habibie's own position and stance on economic development was still evolving. With hindsight, however, it is clear that he held economic nationalist views at the time. It is certainly doubtful whether he viewed Singapore in the same light as the technocrats. It seems, therefore, that in negotiating the Batam Agreement, he was carrying out Soeharto's orders. Habibie was soon to cast aside the logic of complementarity with Singapore, and to pursue a nationalist agenda. By 1983, numerous restrictions had been placed on foreign investors and the technocrats' framework for development had been overturned.

The period witnessed the first real attempt by the Riau provincial government to exert influence over central government policies, something it had not done in the past, even when the entire island of Batam had been taken over by Pertamina in 1973. The Riau Governor's attempts to exert control over what he considered to be the preserve of local government authority - the income generated from the selling of sand to Singapore - were, however, quickly over-ruled by Soeharto. Whilst Pemda Riau's influence proved to be weak on this occasion, it was to gradually strengthen during the 1980s.

The most remarkable influence on the policy-making processes during this period was the pressure brought to bear by the media and nationalist elements upon the signing of the Batam Agreement with Singapore; remarkable because it was the exception and not the rule. Nationalist groups still held the view that Singapore unfairly benefited from Indonesian economic development and viewed any cooperation with Singapore on Batam with suspicion, particularly when a decade earlier Batam was hailed as an economic weapon against Singapore. It seemed that these views also found support

within the government, particularly from Habibie and Ali Murtopo. The inflammatory, and often ill-informed views of the nationalists were widely carried in the Indonesian press, and led Indonesian and Singaporean leaders to take several measures to placate them.

Most importantly, however, the media and nationalist elements forced the Indonesian government to reassess the domestic political implications of cooperating with Singapore on Batam. With widespread condemnation of even suggestions that cooperation on Batam would involve Singaporean management and infrastructure assistance, the final agreement was toned down to simply an Agreement for the facilitation of goods, people and services. So influential were the opinions of nationalist groups, and the media that carried their views, that the Indonesian government even blocked both the release of indications that an agreement would be signed, and the details of that agreement to the Indonesian media. An Indonesian Observer editorial, entitled "At What Price?", angrily attacked the government on this point.

It is rather odd that this agreement had to be signed in Singapore, and not in Jakarta. And not less deplorable is the fact that government agencies in Jakarta, involved in the materialisation of this agreement proved to have toned down - if not attempted to black out - the general release of that document for a nation-wide publication. A major agreement involving the future cooperation between Indonesia and Singapore should have been simultaneously released by all the medias (sic) of both countries...This is a deplorable treatment which the Indonesia press and the other medias did not expect to deserve from those Indonesian government agencies involved in the Batam project.<sup>162</sup>

External factors remained important to the policy-making processes for Batam Island. Most importantly, the international economic system was still recovering from the downturn in the oil market, and oil industry activity and exports remained well down during the late 1970s. This continued to affect Batam Island, and forced the re-thinking and re-orientation of development away from the oil sector towards export-oriented manufacturing.

Foreign governments were especially important to Batam. For example, Kuwait kept alive the idea of an oil refinery on Batam for several years but the stringent conditions it had placed on its investment led the Indonesian government to reject the oil refinery altogether. However, Singapore was to remain the most important external policy consideration. It was perhaps sheer geographical proximity to Batam Island that

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<sup>162</sup>"At What Price?". Indonesian Observer, 3 November 1980.

weighed most heavily on Indonesian policy-makers. For the technocrats it meant cooperation, and for the nationalists it meant competition.

The technocrats won the day and, with the strong support of Soeharto, the Batam Agreement was signed. The focus on Singapore marked a turning-point in Batam Island's development, as did Singapore's apparent willingness to cooperate. However, the Singapore government was not able to achieve its main objective which was to help develop and manage the Batam industrial area for relocating Singapore companies. Despite Singaporean efforts, domestic nationalist fervour in Indonesia made it nearly impossible for the Indonesian government to agree to direct Singaporean government involvement in the Batam project. In the end, Singapore had to be content with the Batam Agreement and hope that Indonesia would move quickly to develop infrastructure and continue making the regulatory environment attractive to Singapore investors.

The legacy of the Technocrat period remains today. In fact, the types of changes introduced for Batam, particularly the regulatory and administrative reforms, foresaw what the technocrats would do to the Indonesian economy when their power and influence increased in the mid-1980s. Whilst the changes initiated by the technocrats were to be severely distorted by economic nationalist restrictions introduced by Habibie during the 1980s, when Batam began to be opened up again in 1989 they were to serve as an important basis for the attractiveness of Batam as a location for foreign investment.

## 5

### **The Habibie Period**

When Habibie took control of the reins of BIDA and responsibility for the development of Batam Island in late 1978, he inherited an economic agenda determined by the technocrats. The technocrats had created a framework for development based on a relatively open regulatory environment, complementarity with Singapore and a broad-based industrial make-up. Initially Habibie, most likely guided by Soeharto, pursued cooperation with Singapore, as shown by the signing of the Batam Cooperation Agreement in 1980. However, Habibie quickly changed the focus of development away from broad-based industrialisation to intermediate, high-technology and capital intensive industries, most notably by banning labour-intensive industries.

With the conclusion of the Batam Agreement with Singapore much hope was placed on Batam Island becoming an important industrial area for Indonesia. That hope, however, was short-lived. Not only was the international economy entering a period of recession but the early 1980s witnessed the introduction of economic nationalist policies on Batam, laid out in a restrictive investment climate. Despite having negotiated the agreement with Singapore, Habibie was to almost shun new investment in favour of building up Batam's infrastructure, and where new investment was encouraged it was to be confined to technology-based industries. Apart from a short-lived boom generated by the relocation of oil-servicing companies, economic activity remained limited for the decade ending 1988.

#### **Habibie and the Rise of the Nationalist Economic Agenda**

The late 1970s had seen a resurgence of the nationalist economic agenda in Indonesia, of which Habibie had become a major proponent. Despite the Pertamina crisis, the availability of large amounts of oil money had permitted the dominance of nationalist economic policies and resulted in a decline in the technocrats' influence. Massive oil income made it less necessary to create an efficient non-oil sector capable of competing internationally and undermined the efforts of the technocrats to create an environment favourable for spontaneous business development. While the technocrats were strongly committed to markets and competition, the nationalists had reservations about free-market ideology and pressed for active government intervention in and regulation of market behaviour.

In contrast to the cautious approach of the technocrats, Minister for Research and Technology, B.J.Habibie, was seen by many as 'action-oriented' and 'an achiever'. Emerging as one of the most prominent figures on the 'economic nationalist' side of policy debates, Habibie consistently argued that the capacity to develop and produce technology was essential for successful industrialisation, and pushed the case for promoting domestic production using high technology, in order to promote the training and discipline of a modern labour force. For Habibie, an effective transfer of technology to improve the quality of labour and its productivity was also vital for nation-building.<sup>1</sup>

Habibie has since been the main architect of Indonesia's plan to master complex technologies and with them leapfrog into the ranks of developed countries through the medium-term generation of a self-sustaining high-tech manufacturing base. Habibie's economic concept is that high value-added technology is the key to future economic success. He believes that Indonesia must focus on the 'competitive advantages' that only technology could provide, rather than relying on Indonesia's traditional and 'comparative advantages' of abundant land and labour.

According to Habibie, the Indonesian economy would remain dominated by low-skill, labour-intensive, and resource-based industries if its direction were left to be determined by market forces and comparative advantage, but a focus on technology would add value to domestic production and increase the productivity of Indonesian workers. Habibie believes that private companies will not on their own invest sufficiently in research and development or obtain transfers of technology from foreign firms, so the government must play a leading role in these areas. He has therefore advocated government initiatives to establish high-technology industries and to train a highly-skilled workforce.<sup>2</sup>

Whilst the government has traditionally concentrated on basic infrastructure such as roads, bridges and utilities, Habibie says technology should be regarded as a crucial component of 'infrastructure' and should be invested as such. Habibie particularly dislikes labour-intensive and assembly operations, and believes that Indonesia should not seek investment in labour-intensive industries such as garments, footwear and toys,

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<sup>1</sup>Habibie himself associates his 'value-added' strategy with the new generation of intellectuals and the engineering profession, and the comparative advantage approach with the economics profession, foreign lenders and international financial institutions. Ross McLeod ; "Survey of Recent Developments" *Bulletin of Indonesian Economic Studies*, Vol.29 No.2 (August 1993), p4.

<sup>2</sup>*Far Eastern Economic Review*, 18 August 1983, pp 55-57. Bruce Glassburner & Mark Poffenberger ; 'Survey of Recent Developments', *Bulletin of Indonesian Economic Studies*, Vol.XIX No.3 (December 1983), pp 19-20. Richard Robison ; "After the Goldrush : The politics of economic restraints in Indonesia in the 1980s" in Richard Robison et.al. (eds) *Southeast Asia in the 1980s : The Politics of Economic Crisis* (Allen and Unwin, Sydney 1987), pp 29-30.

but rather should pursue high-tech manufacturing such as aircraft and ship production.<sup>3</sup> Habibie practised what he preached during the 1980s by promoting national aircraft and ship-building industries, both of which required heavy government subsidisation, and the imposition of restrictive investment regulations discouraging labour-intensive industries on Batam Island.

Whilst parallels have been drawn between Habibie and Ibnu Sutowo, the comparison is not entirely appropriate. Habibie's operations were on a much more modest scale than Pertamina's, funding went through the Minister of Finance who was at least able to monitor resource flows and external borrowings, and Habibie was known to place greater emphasis on economic viability in project evaluation.<sup>4</sup> With an understanding of technology, and increasingly aware of the commercial and economic aspects of his industrial ventures, Habibie's challenges perhaps lay more in the field of management and in being able to follow through his policy objectives with actual and concrete progress and achievements.

The major arguments against Habibie's ventures concern their limited effects on the economy as a whole. The technocrats, taking comparative advantage as their starting point, question the economic validity of high-technology production in a labour surplus economy. They point to the need to establish industries which provide jobs for a large labour force - there are 2-3 million new entrants to the job market annually - and the need to acquire skills step-by-step. Fearing the creation of economic enclaves, the technocrats argue that industries which used sophisticated technology have limited linkages with an Indonesian domestic economy whose industrial capacity is very limited.<sup>5</sup>

Other critics argued that Habibie's approach was costly for the economy, that Indonesia had little capital to invest in expensive projects, and that it drained money that could be used for more productive purposes. They also argued that the projects were aimed more at instilling national pride than advancing Indonesia's economy. In response to the nationalist economic agenda of the 1980s, the World Bank called for a reduction in state investment in large industrial projects, with the intention of correcting what it regarded as an irrational pattern of investment and an inappropriate industrial strategy, and continued to press for an Indonesian economy which operated according to the

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<sup>3</sup> *Far Eastern Economic Review*, 29 July 1993, pp 58-60. Adam Schwarz; *A Nation in Waiting: Indonesia in the 1990s* (Allen and Unwin, Sydney 1994), p 86.

<sup>4</sup> Hal Hill; "Survey of Recent Developments" *Bulletin of Indonesian Economic Studies*, Vol. XX No. 2 (August 1984), p 19.

<sup>5</sup> *Far Eastern Economic Review*, 18 August 1983, pp 55-57.

principle of comparative advantage and would be responsive to the free operation of the international division of labour.<sup>6</sup>

Both the economic nationalists and the technocrats recognised that the debate was part of an ongoing argument and that the positions of either side were not immovable. In the end, the decisive element in policy-making and policy formulation was Soeharto. Each side of the economic debate had to convince the President on an ad hoc, case-by-case basis. The President could be expected to listen to both sides of the argument and seek compromises but, in the end, he called the shots after the options had been presented to him.<sup>7</sup> More than any other minister, however, Habibie was untroubled by critics for he had the best protection available - Soeharto - and in most ways Habibie's influence was derived from the President.<sup>8</sup> As Hill noted,

Habibie appears to be able to operate a personal fiefdom, immune to financial constraints and accountable only and directly to the President.<sup>9</sup>

Against the national backdrop, the debates surrounding the development of Batam were in no way unusual, but they illustrate how different economic policies as well as seemingly opposing development aims and objectives are formulated and applied in Indonesia. Whilst Batam Island was one of the few projects to be in technocratic hands in the late 1970s, their efforts at regulatory reform for the island were to be replaced by interventionist policies and economic nationalism under Habibie during the 1980s.

### **The Investment Climate on Batam Island during the 1980s**

Despite Indonesian hopes for a second boom of foreign investment following the signing of the Batam Cooperation Agreement, Batam Island suffered from a number of problems, all of which led investors to hold back. Habibie boasted to Singaporean businessmen in 1979,

We have created a free trade zone. We are bringing all the rules and regulations into line with Singapore. I will leave the development of the island to the genius of the entrepreneur; the creation of new industries depends on the initiative of the private sector. If people feel they can establish a profitable business on Batam, they will.<sup>10</sup>

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<sup>6</sup>Richard Robison ; 'After the Goldrush : The politics of economic restraints in Indonesia in the 1980s' in Richard Robison et.al. (eds) *Southeast Asia in the 1980s : The politics of Economic Crisis* (Allen and Unwin, Sydney 1987), pp 29-30.

<sup>7</sup>*Far Eastern Economic Review*, 18 August 1983, pp 39-41. Bruce Glassburner & Mark Poffenberger ; 'Survey of Recent Developments' *Bulletin of Indonesian Economic Studies*, Vol.XIX No.3 (December 1983), pp 19-20.

<sup>8</sup>Interview with former Foreign Minister, Mochtar Kusumaatmadja, 4 August 1994.

<sup>9</sup>Hal Hill ; "The Economy" in Hal Hill (ed) *Indonesia's New Order : The Dynamics of Socio-Economic Transformation* (Allen and Unwin, Sydney 1994).

<sup>10</sup>*Far Eastern Economic Review*, 20 April 1979.

Yet, by 1983 not one of the 50-70 Singaporean investment applications lodged with BIDA in 1979 had been realised let alone begun operation, others were still awaiting approval of investment applications, and it appeared that the majority of those who had received approval to set up operations were waiting for further information before starting construction.<sup>11</sup>

There were several reasons for the lack of investment. Firstly, an unfavourable regulatory environment which discouraged certain industries, particularly labour-intensive manufacturing. Secondly, infrastructure inadequacies which forced investors to provide their own facilities, including electricity and water supply. Thirdly, poor promotion of the industrial area.

### **The Policy Environment**

During the initial years of his Chairmanship of BIDA, particularly during the negotiation of the Batam Agreement, Habibie had given the impression that he would continue development along the lines envisaged by the technocrats. Habibie's "balloon theory" was seemingly premised upon free market thinking.

If you have a balloon, and you put air into it, then the balloon will grow to its optimum size. After the maximum pressure is reached, the balloon will explode. As an engineer, what I am going to do is make a valve to give the air to another balloon. The air in this balloon is economic development of Asia. Look at my balloon Singapore. It has limited land, limited human resources. If the whole development comes in they get problems. To prevent that, I make my valve. I make the next balloon with Batam. And if Batam is saturated, then I make the next island.<sup>12</sup>

Habibie often spoke in terms usually attributed to economists. Habibie told Singaporean businessmen,

Some businesses find it more economical to stay in Singapore while others may find it makes more sense to relocate in Batam while continuing to have easy access to Singapore's efficient services. Yet some others may find it useful to stay in Singapore, but establish a second plant or facility on Batam. An economically rational division of labour will arise.<sup>13</sup>

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<sup>11</sup>BIDA ; Rencana Kerangka Dasar. Tata Ruang Pengembangan Daerah Industri Pulau Batam (April, 1979), p 12. Various media reports.

<sup>12</sup>Far Eastern Economic Review, 7 February 1985.

<sup>13</sup>Singapore Economic Bulletin, December 1982, p 28.

By the early 1980s, however, Habibie began going to great lengths to impart that his scenario for the future of Batam was very different from that of Sutowo and Sumarlin. In a 1983 interview, Habibie said,

When I took control of Batam in 1978, there wasn't electricity, there wasn't drinking water, there wasn't an airfield...it was still jungle. The initial pattern of development is different with the scenario which is put forward by [me]...<sup>14</sup>

It soon became clear that the valve linking the balloons of Singapore and Batam was to be tightly controlled. Despite the fact that it needed large amounts of investment, Batam Island was not to be geared to creating an economy responsive to capital investment flows and an international division of labour. Whilst there was no real consideration of high-technology when Habibie initially took over, by the early 1980s, and in line with his overall aims for Indonesia, Habibie wanted Batam Island to become a high-tech centre.<sup>15</sup>

Habibie argued that real development could take place only on a firm basis of investment in capital, intermediate and high-tech manufactures, which could be generated only by deliberate state intervention and would not be produced by free operation of an international market.<sup>16</sup> Minister Ginandjar Kartasasmita, one of Habibie's supporters, argued that Indonesian technical capability would be improved by investment on Batam Island, for whereas Indonesia's other industrial zones were connected to raw materials abundant in the areas where they were situated, Batam Island was to be connected to international markets. According to Ginandjar,

In Batam we want to develop high technology, industries and machinery which hopefully will eventually serve other areas as well as a staging point for export. This is its major purpose. We want investors to invest there in an as uninhibited environment as possible. This is why the entire zone is extraterritorial and outside Indonesian customs areas.<sup>17</sup>

One of the main implications of this focus on high-technology was that particular industries, notably those at the lower end of the technological scale would be discouraged from Batam Island. The first indications that this would be the case, was when Habibie began calling for capital-intensive investment on Batam Island, and

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<sup>14</sup>Eksekutif, December 1983.

<sup>15</sup>Interview with former BIDA Vice-Chairman, Hermomo, 22 August 1994. It is arguable just who first placed priority on technology for the development of Batam Island. It could be argued that technology was a priority in Ibnu Sutowo's plan. It could also be argued that it was Sumarlin who recommended that technology be added to development aims. Interview with Hasnan Habib, 1 August 1994. One of BIDA's versions is that Habibie had requested land on neighbouring Bulan Island to establish a research centre in 1978, but Soeharto instead gave him the assignment to develop Batam Island. Interview with BIDA Executive, Gunawan Hadisusilo, 10 August 1994.

<sup>16</sup>Richard Robison ; 'After the Goldrush : The politics of economic restraints in Indonesia in the 1980s' in Richard Robison et.al. (eds) Southeast Asia in the 1980s : The politics of Economic Crisis (Allen and Unwin, Sydney 1987), p 30 fn30.

<sup>17</sup>Kaleidoscope International, Vol.IX No.1 (1984), p 97.

telling labour-intensive investment to go to Java.<sup>18</sup> The restrictive investment climate, however, became most apparent when BKPM Chairman Suhartoyo, in cooperation with BIDA, issued a DSP (Daftar Skala Prioritas or Investment Priority List) for Batam Island in 1982.<sup>19</sup>

The DSP essentially restricted foreign investors to sectors requiring special technologies or skills, or in sectors with export earning potential, and identified approximately 40 manufacturing and service industries as priority areas for investment on Batam. Included on the DSP were food preservation, building components/materials, tools, electrical components, optical/photographic equipment, applied electronics, and any oil industry activity. Most significantly, the DSP openly discouraged labour-intensive operations.<sup>20</sup>

One key restriction of the DSP was the discouragement of businesses which required large areas of land or a lot of water.<sup>21</sup> The DSP also discouraged polluting industries on Batam Island, a decision strongly supported by Minister for Population and Environment, Emil Salim who warned BIDA to be wary of polluting industries being moved to Batam from other countries.<sup>22</sup> These restrictions were perhaps logical considering the limited land and fresh water supplies available on Batam, as was the ban on polluting industries, but to restrict labour-intensive operations could only be seen as over-zealousness on Habibie's part.

The restriction on labour-intensive industries severely damaged Batam's chances for attracting investment. During 1980, 12 Singapore companies had received approval for joint-ventures and another 25 had made applications to invest on Batam Island, mainly in such areas as food processing, wood processing, brick making, garment making, biscuit making and warehousing.<sup>23</sup> None of these investments was ever to be realised.

For instance, textile manufacturers planning operations on Batam Island withdrew their applications to invest because of the restrictions laid down by the DSP. Their decision was also affected by a policy that Indonesia's largely unfilled quota, entitling export of Indonesian-made textile goods to the West, would not apply to clothes made on Batam.

<sup>18</sup>Kompas, 21 May 1979.

<sup>19</sup>Sinar Harapan, 13 May 1982.

<sup>20</sup>BKPM ; Business Line List for capital investment in Batam Island, 1982/83 (Jakarta, 1982). Surat Keputusan Ketua BKPM No.22/SK/1982 (27 July 1982). Business News, 2 August 1982. Business News, 2 July 1982. Asia Research Bulletin, 31 January 1983, pp 1002-3.

<sup>21</sup>BKPM ; Business Line List for capital investment in Batam Island, 1982/83 (Jakarta, 1982). Surat Keputusan Ketua BKPM No.22/SK/1982 (27 July 1982). Business News, 2 August 1982. Business News, 2 July 1982. Asia Research Bulletin, 31 January 1983, pp 1002-3.

<sup>22</sup>Antara, 25 February 1988.

<sup>23</sup>New Nation, 4 July 1980. See also Straits Times, 26 November 1979. Straits Times, 6 December 1979.

This meant that relocated Singapore factories on Batam Island would have to use Singapore's quota which was already fully tapped.<sup>24</sup>

The log-processing industry was another to suffer from the DSP. BIDA ruled that industries using unprocessed logs were not welcome but activities such as furniture production were encouraged. All plans and investment applications for log-processing industries on Batam Island were shelved towards the end of 1980.<sup>25</sup> This was reinforced by national policy on logging in general. A BKPM ruling encouraged sawmillers to set up in logging areas instead, while steps were taken to discourage the export of unprocessed logs in the rest of Indonesia. Minister for the Environment, Emil Salim, explained the policy during a discussion in Singapore.

We want the timber-based industry in the places where timber as a raw material is available. Batam has no timber resources. If Batam developed timber-based industries, then the resources from Kalimantan and Sumatra will necessarily go to Batam. This is not our intention. The log-processing industry must go to where the resources are.<sup>26</sup>

The restrictions on particular industries and labour-intensive operations were viewed with disdain in Singapore, for they were the antithesis of how the Singaporean government saw a role for Batam Island. Prime Minister Lee's view was that attempts to leap-frog over what should be a gradual industrialisation process would not be successful.

There must be a gradual transformation - first labour-intensive, then gradually, skill-intensive. It is a process which cannot be short-circuited...If Batam is to succeed, it must start off with labour intensive-industries. These are investments which will provide you with an opportunity to develop your core of skilled workers.<sup>27</sup>

A further problem for prospective investors was that terms and conditions for investing in Batam were almost identical with those for Jakarta and other parts of Indonesia. This meant that Jakarta and West Java were more attractive to investors because industries could utilise good infrastructure as well as tap into the domestic Indonesian market, whereas on Batam Island they would have to depend on the export market. Some attempt, however, was made to ease regulations for investors. Habibie promised Singaporean businessmen,

In order to lighten the burden of foreign investors, BIDA will continue to make regulations for Batam as minimal as Singapore.<sup>28</sup>

<sup>24</sup>*Straits Times*, 9 April 1981.

<sup>25</sup>*Singapore Economic Bulletin*, September 1980, p 23. *Straits Times*, 9 April 1981.

<sup>26</sup>Quoted in Leo Suryadinata & Sharon Siddique (eds); *Trends in Indonesia II* (ISEAS, Singapore 1981), p 153.

<sup>27</sup>*Straits Times*, 5 July 1980.

<sup>28</sup>*Sinar Harapan*, 22 February 1983. *Suara Karya*, 22 February 1983.

One such regulatory change was that from February 1983 the Indonesian government exempted Batam residents and those working on Batam from paying the fiscal (overseas travel) tax when travelling to Singapore.<sup>29</sup> Habibie explained that,

Facilities in the area of immigration constitute an incentive for foreign investors who will build businesses or invest capital on Batam.<sup>30</sup>

Such efforts were, however, too minimal to provide an incentive for foreign investors. Foreign investors were looking for regulatory certainties. BIDA Chief Executive, Soedarsono, insisted that Batam did not have a complicated bureaucracy, personally guaranteeing that any interested investor who applied in the morning would by afternoon have already been given the green light.<sup>31</sup> However, when he told a group of visiting Ambassadors and foreign businessmen inquiring about the regulatory environment on Batam not to worry about such details because, "Dr Habibie is very powerful and goes right to the top", he failed to provide confidence of regulatory certainties on Batam.<sup>32</sup>

One main reason for the lack of regulatory change was that interdepartmental coordination was poor, despite the fact that five government agencies had offices on Batam by 1983.<sup>33</sup> One crucial agency in particular continued to be poorly represented on Batam Island - the BKPM. This was clearly illustrated by the fact that at the same time as the Indonesian government was threatening to revoke the licenses of those who had received the green light to invest but were considered to be moving too slowly<sup>34</sup>, investors were complaining about the lengthy wait needed to obtain permission to invest - from the time of submitting an application, a green light could take more than one year.<sup>35</sup> This was in spite of Habibie's promise that,

I will approve a new venture in just one day. All I require is a guarantee that the company will begin work within 4 months.<sup>36</sup>

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<sup>29</sup>Merdeka, 19 February 1983. Sinar Harapan, 22 February 1983. Antara, 22 February 1983. Jurnal Ekuin, 23 February 1983. Asia Research Bulletin, 31 March 1983, p 1024. Employees on Batam Island were already eligible for multiple entry visas to permit them to commute daily from Singapore because of a lack of facilities to house workers on Batam. Straits Times, 2 August 1980.

<sup>30</sup>Antara, 22 February 1983.

<sup>31</sup>Suara Karya, 9 July 1987.

<sup>32</sup>Interview with former Indonesian diplomat, 21 November 1994.

<sup>33</sup>Jurnal Ekuin, 20 September 1982. Antara, 26 October 1983. The only change and coordination was that BIDA was given authority over trade and cooperatives on the island. Surat Keputusan Menteri Riset dan Teknologi selaku Ketua OPDIPB No.026/KA-KPTS/10/83 (25 February 1983). Surat Keputusan Menteri Perdagangan dan Koperasi No.70/KP/I/83 (19 January 1983).

<sup>34</sup>Departemen Penerangan ; Pulau Batam : Sarana Perhubungan Sekarang dan Masa Datang (Jakarta 1982), pp 40-41.

<sup>35</sup>Jurnal Ekuin, 20 September 1982. Kompas, 12 November 1982.

<sup>36</sup>Far Eastern Economic Review, 20 April 1979.

### Infrastructure Development

In addition to an unfavourable regulatory environment, lack of enthusiasm on the part of investors was also due to Batam Island's inadequate infrastructure, particularly in communications, power and water. According to State Secretary Sudharmono, the question was not only how Indonesia could motivate Singapore investors to join in Batam's development but how the Indonesian government could speed up the development of the infrastructure of the island.<sup>37</sup> Habibie, however, contended that in developing infrastructure, one could not just say "simsalabim" (abracadabra).<sup>38</sup>

According to former minister, Mohammad Sadli, whilst the Indonesian government wanted to promote Batam as a site for new foreign capital investments, it was initially not willing to spend money on the construction of infrastructure mainly because government money for infrastructure was scarce. As a result, incoming investors were discouraged by the burden of extra financial requirements needed to create their own power systems, housing, roads and water systems.<sup>39</sup>

Those prospective investors who did inspect Batam during the early 1980s complained that Indonesia was moving too slowly on the provision of basic facilities.<sup>40</sup> Members of the Singapore International Chamber of Commerce who inspected Batam Island in March 1981, reported that they had been favourably impressed by existing developments and the long-term plans for Batam, but that prospective investors would want to see basic infrastructure completed before making any decision to invest.<sup>41</sup> Members of the SMA (Singapore Manufacturers Association), who visited in April 1983, also saw potential for Batam, but would wait for infrastructure to be completed before making any investment decisions.<sup>42</sup>

The key to Batam Island's development was adequate infrastructure, but Indonesia faced a chicken-and-egg dilemma; whether to pour huge investments into massive infrastructure development in order to attract investors or to wait for more investment projects before going ahead with the infrastructure build-up. Habibie was particularly

<sup>37</sup>There was talk of joint tourism promotion and joint investment cooperation on Batam Island. *Straits Times*, 9 September 1982. *Straits Times*, 10 September 1982. *Far Eastern Economic Review*, 17 September 1982. *Antara*, 10 November 1982. *Suara Karya*, 11 November 1982. *Kompas*, 12 November 1982.

<sup>38</sup>*Suara Karya*, 27 August 1982.

<sup>39</sup>Comments made in Leo Suryadinata & Sharon Siddique (eds); *Trends in Indonesia II* (ISEAS, Singapore 1981), pp 152-3.

<sup>40</sup>*Asiaweek*, 14 November 1980. Interview with former Indonesian Ambassador to Singapore, Sujatniko, 24 August 1994.

<sup>41</sup>Members also found the infrastructure time-table a bit optimistic, although admitted that considerable progress had been achieved. They were also 'taken aback' by the relatively high cost of land, although prices were not mentioned. *Straits Times*, 9 April 1981. *Singapore Economic Bulletin*, April 1981, p 47.

<sup>42</sup>Interestingly, they considered land prices to be cheap, but noted the lack of skilled labour and housing. *Antara*, 6 April 1983.

wary of premature investment in infrastructure development, mainly because of the experiences at Krakatau Steel where excellent harbours, infrastructure and electricity supply were not fully utilised.<sup>43</sup>

Rising oil revenues in the early 1980s following the Iran-Iraq War, however, meant that the government had budgetary monies to create infrastructure to promote incoming industries.<sup>44</sup> A decision for Batam was then made - develop infrastructure first, and then attract investment.<sup>45</sup> The focus was to be on heavy state investment, particularly in infrastructure development. Habibie was to call the first phase of development under his leadership between 1978 and 1983 the 'The Main Infrastructure Development Period', and from 1983 onwards, 'The Capital Investment and Continuation of Infrastructure Development Period'.<sup>46</sup> According to Habibie,

When I took over I stopped all promotion of the island. We didn't have anything to promote. You need some concrete evidence of what you are talking about before people will listen. We are starting with the infrastructure. Roads, port and airport.<sup>47</sup>

On 27 December 1983, President Soeharto, accompanied by half the Indonesian cabinet, officiated at the completion of main infrastructure on Batam Island, including six major projects - airport, seaport, highways, water reservoirs, telecommunications facilities and a power station - which were seen as the main conditions for take-off.<sup>48</sup> President Soeharto described Batam Island's future role,

We have strong reasons for making Batam an industrial and development area because the island's main asset is not because of abundant natural resources or workforce but because of its very strategic position beside air and sea traffic routes...We want to make this strategically located island, connecting with the Indian and Pacific Oceans, one of the main gateways of our relations with the outside world, relations that will undoubtedly be even busier in the years to come. In the overall development activities of Indonesia, we are aware that first and foremost the strength and endeavour must come from ourselves. But we still consider possible the participation of foreign capital, technology and skill in our development efforts, while preserving the direction of development in our hands. From the many attractive opportunities for foreign

<sup>43</sup>See his comments in *Kompas*, 10 November 1978.

<sup>44</sup>See Mohammad Sadli's comments in Leo Suryadinata & Sharon Siddique (eds); *Trends in Indonesia II* (ISEAS, Singapore 1981), pp 152-3.

<sup>45</sup>Interview with BIDA Executive, Gunawan Hadisusilo, 10 August 1994. It is most likely that the decision was fully supported by the technocrats. In 1991, Sumarlin was quoted as saying, "The key to developing the outer regions is for the government to build up infrastructure. Then the private investors will go in." *Far Eastern Economic Review*, 18 April 1991, p44.

<sup>46</sup>BIDA; *Barelang: Development Data up to December 1993* (Jakarta, 1994).

<sup>47</sup>*Kaleidoscope International*, Vol.IX No.1 (1984), p 284.

<sup>48</sup>*Straits Times*, 28 December 1983. Details of the projects can be found in *Antara*, 2 January 1984.

investment in Indonesia...the Batam Island industrial area constitutes one of the most attractive of these opportunities.<sup>49</sup>

The most important infrastructure development was to be the completion of an airport capable of taking Airbus A-300.<sup>50</sup> From April 1983, Garuda began twice-weekly commercial F-28 flights to Batam from Jakarta, and by December flights from Jakarta, Medan and Palembang had reached 13 times a week.<sup>51</sup> For the first time, visitors to Batam Island from within Indonesia did not have to go through Singapore. This meant that the travel time to Batam Island was a lot shorter and more convenient, communication was sped up, and those leaving Batam on internal flights were free from paying the exit fiscal tax necessary if they returned via Singapore.<sup>52</sup> By 1988, the airport runway was being expanded to handle Boeing 747s and Airbuses, with plans for a modern terminal and other supporting facilities.<sup>53</sup>

The Indonesian state was able to provide the engine of growth through huge investment despite disappointing inflows of foreign capital investment in the non-oil sector since the mid-1970s. On Batam Island the state remained the main investor and regulator, accounting for slightly more than 50% of total investment on the island in 1983, a figure which remained largely unchanged throughout the 1980s.<sup>54</sup>

However, in 1983, severe financial constraints, caused by an international recession and a collapse of the international oil market, enlarged Indonesia's current account deficit to unsustainable levels and led to austerity measures. One of the major measures taken as a result was a re-phasing of many public sector projects across Indonesia, and in particular a slowdown of some of the more costly industrial projects.<sup>55</sup> Yet the development of Batam Island, and other 'high-tech' industries under Habibie, were largely unaffected by the re-phasing and cancellation of projects.<sup>56</sup>

<sup>49</sup>Dewan Masyarakat, 6 May 1990. Francois Raillon ; Indonesia 2000 : The Industrial and Technological Challenge (CNPf and Cipta Kreatif, Jakarta 1990), p 174.

<sup>50</sup>The airport cost Rp17.5billion. Asia Research Bulletin, 30 April 1983, p 1035. In 1979 the airport could only handle 20-passenger short take-off and landing planes. Far Eastern Economic Review, 20 April 1979. They were Fokker f-28. Pelita, 16 February 1983.

<sup>51</sup>Suara Karya, 4 January 1983. Suara Karya, 22 February 1983. Sinar Harapan, 22 February 1983. Antara, 6 June 1983. Kompas, 28 December 1983.

<sup>52</sup>At the same time, however, all goods coming from Batam on the air flights would be hit by customs/import taxes from April 1983. Kompas, 9 April 1983. The airport was also part of a Hankamnas strategy. Departemen Penerangan ; Pulau Batam : Sarana Perhubungan Sekarang dan Masa Datang (Jakarta 1982), p 32.

<sup>53</sup>The expansion was to be at a cost of US\$47m, half of which was to come from a Japanese loan. To support the airport expansion, Soeharto agreed to fix aviation gas prices at the same level as Singapore to encourage Garuda and other aircraft serving international routes to refuel on Batam rather than in Singapore. Aviation fuel prices were currently set higher than Singapore in Indonesia. The Jakarta Post, 23 November 1988.

<sup>54</sup>BIDA ; Barelang : Development Data up to June 1994 (Jakarta 1994).

<sup>55</sup>Far Eastern Economic Review, 26 May 1983, pp 82-3. Far Eastern Economic Review, 18 August 1983, pp 39-41 & 51.

<sup>56</sup>Hal Hill ; "Survey of Recent Developments" Bulletin of Indonesian Economic Studies, Vol.XX No.2 (August 1984), p 19.

On Batam Island, development continued despite the state's declining capacity to invest. The budget was reduced, although only marginally, and perhaps also due to the fact that the main infrastructure projects had been completed by the end of 1983. Significantly, however, three huge projects that were being mooted at the time - a coal storage centre<sup>57</sup>, a gas pipeline project<sup>58</sup>, and a giant port complex - were put on the backburner. The first two were perhaps considered not financially feasible by the foreign partners, but the port complex appeared to have been directly affected by the recession.<sup>59</sup>

It had long been predicted that Batam Island would eventually carve out for itself a share of the entrepot trade on which Singapore flourished. One of the first steps towards by-passing Singapore was announced in February 1981 by the BIDA Chairman's brother and Director-General of Sea Communications, Fanny Habibie, when Batam was designated the focal point of the inter-island Lighter Aboard Ship (LASH) lighter network.<sup>60</sup>

The second, and most important step, was the idea for a huge container port complex. In 1982, a feasibility study for the building of the Asia Port complex was carried out by experts from Rotterdam and Indonesia.<sup>61</sup> With Rotterdam as the role model/prototype, the idea was to "Meng-Rotterdam-kan Batam" (Rotterdam-ise Batam).<sup>62</sup> Announcing

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<sup>57</sup>In 1982, Australian company BHP joined Indonesia in a A\$1.1m study into the feasibility of constructing a regional coal handling port on Batam Island, to be located at the southern end of the Asia Port complex. Announced by Habibie in September 1982, the coal depot would have a storage capacity of 2 to 5 million tons of Australian and Indonesian coal. The plan also called for the building of a coal-fired electricity power plant with a 400-600 megawatt capacity for use on Batam and for possible transmission to Singapore. *Konstruksi*, Desember 1982. *Antara*, 22 September 1982. *Asia Research Bulletin*, 31 October 1982, p 976. *Singapore Economic Bulletin*, October 1982, p 31. *Singapore Economic Bulletin*, December 1982, p 28. *Berita Buana*, 22 February 1983. *Kaleidoscope*, Vol.IX No.1 (1984), p 301.

<sup>58</sup>In consideration was the construction of a gas pipeline to Batam Island. One proposal put forward to Pertamina and the Ministry of Mines and Energy by Gasuni Amro, comprising the Dutch gas company Gasuni and Amsterdam Rotterdam Bank, was to build a pipeline connecting the gas fields in Arun, North Sumatra as well as the East Natuna islands, to Batam Island and then Singapore. The preliminary study showed the project to be feasible and self-financing at US\$7.5b. Another second proposal, based on a preliminary feasibility study by the Marubeni Corporation and the Bechtel Corporation, was to bring gas from the South-west Natuna fields leased by Conoco. It found the Conoco Natunas-Batam gas pipeline connection and the Singapore link to be both economically viable, at an estimated US\$200m, and technically feasible. Conoco was making its own preliminary study. This second proposal was discussed between Lee and Soeharto in September 1982. Singapore PM Lee Kuan Yew mentioned Singapore's interest in buying natural gas from Indonesia, sourced from the Natuna Islands and piped to Batam if there was enough gas, suitable technology and the project was economically viable. An agreement in principle was reached for the purchase of gas by Singapore, but a firm commitment and long-term purchase agreement would only be made provided the pipeline was laid to Batam Island and Singapore tap it from there. Lee said, "We have expressed a willingness to enter into a firm commitment provided the pipeline is laid to Batam and we can make the connection from there." *Konstruksi*, Desember 1982. *Straits Times*, 10 September 1982. *Straits Times*, 16 October 1982. *Far Eastern Economic Review*, 17 September 1982. *Antara*, 22 September 1982. *Malaysian Business*, September 1983. *Straits Times*, 6 October 1983.

<sup>59</sup>*Straits Times*, 10 June 1983.

<sup>60</sup>*Topik*, No.142 (Maret 1981). John Bunton; *Building Indonesia: A Market Survey* (Construction Press, London 1983), pp 164, 171.

<sup>61</sup>*Antara*, 22 February 1983. *Sinar Harapan*, 13 May 1983.

<sup>62</sup>*Jurnal Ekuin*, 29 October 1982.

plans to build the port complex, with a seven kilometre long frontage and capable of handling 150,000 ton ships, Habibie described the role of Asia Port.

It is hoped that Batam will function as Asia's Rotterdam.<sup>63</sup>

There was a strong logic behind the scheme for the container transit port. In particular, the Asia Port complex would relieve pressure on Indonesia's busiest port of Tanjung Priok, and would also avoid the cost of double-handling. It made sense for ships to discharge Indonesia-bound containers at Batam for onward shipment, rather than discharge them at Singapore for shipment to Tanjung Priok and then for onward shipment to their final destination. However, although it was centrally located and in a perfect position to profit from the container trade generated by Singapore, Batam would be an artificial terminal created out of political will and not by commercial need. Yet it did make some sense, particularly if viewed in the light of bottlenecks at Tanjung Priok and the Indonesian government's desire to persuade industry and people away from Jakarta and Java.<sup>64</sup> Of course the long-term hope was to entice a significant percentage of trade away from Singapore. Coordinating Minister for Economic, Financial and Industrial Affairs, Widjojo Nitisastro, did not try to disguise that fact, indicating that the technocrats were not completely averse to competing with Singapore.

We should make an effort to bypass Singapore in our exports.<sup>65</sup>

Plans for the Asia Port complex continued to surface in subsequent years. After further studies, the complex was revived in the late-1980s as a general cargo and bulk crude oil terminal. As a port for export, other terminals were also planned for timber, rubber, copra, fertiliser, mineral ores and liquefied natural gas.<sup>66</sup>

The 1972 Masterplan had predicted that if private companies had to finance the infrastructure then Batam would have difficulty attracting investors. The warning rang true in the context of the 1980s. Foreign companies on Batam were already financing their infrastructure and utility needs, and some were being encouraged to do more. For example, PT McDermott was pushed into financing a US\$300,000 microwave relay station to improve the area's dismal telephone link to the outside world.<sup>67</sup>

Whilst the international airport and Asia Port projects served as symbolic of Indonesian technical prowess and national achievement, the appropriateness of these projects in the context of existing developments on Batam Island was doubtful, particularly when lack

<sup>63</sup> Antara, 22 February 1983. Sinar Harapan, 13 May 1983. Kaleidoscope, Vol.IX No.1 (1984), p 299.

<sup>64</sup> John Bunton ; Building Indonesia : A Market Survey (Construction Press, London 1983), p 170.

<sup>65</sup> Yong Mun Cheong ; "Bypassing Singapore", Solidarity No.101, 1984.

<sup>66</sup> It was to be financed by a US\$50m loan from the Netherlands. The Jakarta Post, 23 November 1988. See also Suara Karya, 12 December 1985.

<sup>67</sup> Far Eastern Economic Review, 7 February 1985.

of investor interest was due to more immediate infrastructure needs such as electricity and water supplies.

### Promotion

Limited progress on Batam Island was also due to both a lack of, and poor, promotion. Whilst Habibie had been urging Singaporean businessmen to be more active on Batam Island<sup>68</sup>, he was also adamant that there would be no large promotional effort because facilities on the island had not been completed, and that this was the reason for such little interest.<sup>69</sup> This low-key marketing strategy was however a problem, particularly because it resulted in a vacuum of information for prospective investors. Singapore Prime Minister Lee's opinion was that,

Whoever wants to promote investments in Batam should maintain contact with the entrepreneurs.<sup>70</sup>

The role of promoting Batam Island in Singapore had initially been handled by BIDA's own representative. However the BIDA Liaison Officer was recalled in 1982, apparently because of changing needs and a national austerity drive, but also due to "high expenditures".<sup>71</sup> Matters to do with Batam Island were then handled by the Embassy, particularly the Indonesian Ambassador. Newly-appointed Ambassadors to Singapore were told by Soeharto that their main tasks were to represent Indonesia and "*bantu Batam*" (help Batam). *Bantu Batam* came to mean help Batam on both the domestic and foreign fronts - counter moves to discredit Batam and support moves to assist Batam.<sup>72</sup>

The Batam Island radio station, Zoo Radio, perhaps did as much as anything to expose Singaporeans to Batam. Beginning broadcasts in an FM music-only format in September 1988, Zoo Radio captured at least 14% of the listening audience in Singapore.<sup>73</sup> Combined with cheap seafood and duty-free goods, Zoo Radio became a major attraction for tourists wanting to meet the hip deejays. In fact, tourism was the one economic activity to achieve success in the 1980s.

The government's decision to grant Batam Island duty free status in 1978 had generally failed to lure manufacturers, but it did draw tourists. An increase in tourism was

<sup>68</sup>Singapore Economic Bulletin, December 1982, p 28.

<sup>69</sup>Sinar Harapan, 22 February 1983.

<sup>70</sup>Asia Research Bulletin, 31 October 1982, p 976.

<sup>71</sup>Sinar Harapan, 21 April 1982. Straits Times, 21 April 1982. Singapore Economic Bulletin, May 1982, p 47.

<sup>72</sup>Interview with former Indonesian diplomat, 20 November 1994.

<sup>73</sup>Broadcast by Radio Ramako Batam, Zoo Radio had an estimated 700,000 listeners a day during its early months of operation, prompting the Singapore Broadcasting Corporation to respond with a new station with a similar format in January 1989. Far Eastern Economic Review, 8 March 1990. Warta Ekonomi, 11 June 1990.

particularly marked from 1983 when Batam Island was designated as a tourist entry point to Indonesia, within the framework of encouraging the growth of tourism in Indonesia.<sup>74</sup> Attractions grew beyond cheap seafood and duty-free goods as facilities for various outdoor activities and overnight accommodation began to meet demand.<sup>75</sup> Tourism numbers increased rapidly through the 1980s from 9,670 in 1983, to 84,475 in 1986 and 227,981 in 1988, of whom 84% were from Singapore.<sup>76</sup>

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It was clear that more active cultivation of investors by Indonesia, the speedy provision of infrastructure as well as greater incentives, were needed in order to attract investment to Batam Island. But as long the economic nationalist structure remained in place, Batam Island would not be an attractive investment location. As one BIDA official admitted, in an era of high competition for foreign capital between countries, the attraction of Batam Island was low, "except for investors with the spirit of Columbus."<sup>77</sup>

### The Second Pertamina Boom

Success in attracting new investment to Batam Island in the early to mid-1980s was limited and, as has been explained above, the reasons lay in an unattractive regulatory environment and inadequate infrastructure. However, a short-lived boom in economic activity on Batam Island occurred in the mid-1980s. The initiative was to come from the bastion of economic nationalism, Pertamina, and was caused by further economic nationalist measures and government intervention. The boom, however, was limited solely to the oil sector.<sup>78</sup>

<sup>74</sup>Keputusan Presiden No.15 1983, (9 March 1983). Berita Buana, 22 February 1983. Jurnal Ekuin, 23 February 1983. In addition Singaporeans, unlike other foreigners, were granted visa-free entry to Batam. Suara Karya, 11 November 1982. The Justice minister declared Batam as an immigration area with special status in 1983. Surat Keputusan Menteri Kehakiman No-M-01-PW-10.07/1983, (8 January 1983). Bisnis Indonesia, 27 October 1993. Immigration facilities were important as an incentive for both tourists and foreign investors interested in Batam. For that reason, in December 1988, the Indonesian government began issuing special passes for Singaporeans which would enable them to commute to Batam anytime and make 4 multiple visits or stay for as long as two months. The Jakarta Post, 30 November 1987. The Jakarta Post, 6 February 1988. There was also a relaxation of rules for vessels plying the Singapore-Batam route, with the freer movement of vessels designed to encourage more trade and tourist traffic. Straits Times, 19 December 1984. By the middle of 1983, ferries between Singapore and Batam Island were running ten times a day. Straits Times, 10 June 1983. By the end of 1984 there were 6 ferries running 3 times a day. The Jakarta Post, 9 January 1985.

<sup>75</sup>It was reported that so cheap were duty free goods on Batam Island, the savings made covered the return fare from Singapore. Straits Times, 27 May 1988.

<sup>76</sup>Batam Tourist Promotion Board ; Visitor Arrivals to Batam 1991 (Batam, 1992). There was a downside. The number of cases of Singaporeans hit by malaria resulting from trips to Batam rose from 3 in 1986, to 16 in 1987 and 20 in the first four months of 1988. Straits Times, 11 May 1988.

<sup>77</sup>Antara, 5 November 1982.

<sup>78</sup>In addition to Pertamina, PT Tambang Timah, the state-run tin company reported that it was also planning to use Batam Island as a Logistic Base. The President of the company, Sujatniko, previously Batam CEO and Ambassador to Singapore, also announced it would use Batam Island as a maintenance base, with a processing facility in a joint

Despite some important infrastructure projects, and several new investments, Batam Island had only moderately changed since the mid-1970s. Moreover, oil-related activities continued to dominate industries and developments on Batam Island well into the 1980s. To a large extent, the idea that Batam Island could take over economic activities in Singapore continued, particularly with regards to oil-related activities. Essentially the promotion of Batam Island rested on the continued expansion of the petroleum industry, which was not only the main source of revenue for the Riau region,<sup>79</sup> but by 1985 was providing nearly two-thirds of government revenue and nearly 70% of export revenue.<sup>80</sup> However, the idea of a major oil industry supply and logistics base on Batam Island had largely not been achieved.

In the latter half of the 1970s most companies curtailed operations in Indonesia because of the contraction of the Indonesian oil services market, but in the early 1980s the oil services market entered another period of expansion. In this re-invigorated climate, the Indonesian Government and Pertamina began, in stages, to encourage foreign oil companies and contractors to utilise Batam Island, particularly after the completion of the airport in 1983 and continued expansion of the harbours.<sup>81</sup>

In 1979, having recovered from its financial crisis, Pertamina again proposed to its foreign contractors to use Batam Island as their Supply and Logistics Base.<sup>82</sup> In 1982, the Indonesian government began giving priority and relief to businesses and contractors which moved to operate fully in Indonesia, whilst the President requested that all overseas storage of tools and equipment needed for oil and gas operations be moved to Batam Island.<sup>83</sup> In 1983, Pertamina proposed that all contractors with representative offices in Singapore move to Batam Island, and that transshipment of oil-industry related goods no longer be done through Singapore, but go directly to Batam Island.<sup>84</sup>

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venture with Western capital to produce finished tin products, including tin plate, on Batam Island. Neither plan was to eventuate. Sinar Harapan, 14 August 1984. Kompas, 5 November 1984. Singapore Economic Bulletin, November 1986, p 23. Interview with Sujatmiko, 24 August 1994. See also Jakarta Post, 4 November 1988.

<sup>79</sup>In 1983 97.6% of Riau's total exports were energy products, which together made up 33.9% of Indonesia's total exports. Iwan J. Aziz ; "Key issues in Indonesian regional development" in Hal Hill (ed) Unity and Diversity : Regional economic development in Indonesia since 1970, p57.

<sup>80</sup>Far Eastern Economic Review, 14 November 1985, p67. In 1985 Riau's total exports were worth \$4,817 million of which crude oil and residual fuel oil made up 96.1% of the total. Resource rich provinces dominated Indonesia's exports, for in 1985 Riau, Aceh and East Kalimantan generated 61% of total Indonesian exports. Hal Hill & Anne Weidemann ; "Regional development in Indonesia : Patterns and Issues" in Hal Hill (ed) Unity and Diversity : Regional economic development in Indonesia since 1970, pp 37-38.

<sup>81</sup>Berita Buana, 4 November 1985.

<sup>82</sup>Berita Buana, 4 November 1985.

<sup>83</sup>Business News, 11 June 1982.

<sup>84</sup>Kompas, 5 November 1984.

In 1984, Pertamina initiated a policy requiring all of its foreign oil contractors and sub-contractors to relocate their supply and logistics bases from Singapore to Batam Island. It was expected that all contractors who still used a supply base abroad would transfer their central supply base and activities to Batam Island, or elsewhere in Indonesia, by June 1985. The aim was not only to provide support of the Indonesian oil industry, as well as to step up the role of Batam Island as a central supply base for the oil industry in Indonesia, but to stimulate economic activity and employment on Batam Island.<sup>85</sup>

In 1984-85 the Indonesian government and Pertamina tried to further speed the pace of development by adopting shipping and accounting practices that, in effect, forced many foreign oil and related concerns to use Batam Island as a base instead of Singapore, by ruling that all foreign oil companies with production sharing contracts in Indonesia had to import their supplies through Batam Island. In mid-1984, it was announced that all tubular goods imports should be shipped on the basis of 'Cost and Freight Batam Island' or 'Cost and Freight final destination port in Indonesia'. The ruling essentially determined that foreign contractors could not charge their logistics costs as part of their cost calculations in production-sharing contracts unless they used Batam. Pertamina further directed in September 1984 that with effect from January 1985, imports of bulk goods must be made through Batam or other Indonesian ports, and beginning July 1985 other small goods be imported accordingly.<sup>86</sup>

All these rulings aimed to promote the growth of an Indonesian service sector for oil and related industries that had previously been located in Singapore, as well as to stimulate economic activity and employment in general on Batam Island. Whilst Pertamina President-Director, Abdul Rachman Ramly, had lamented the fact that Batam Island's facilities were not as good as Singapore's - in terms of offices, communications, warehousing - it was determined that activities such as repairs and maintenance could be successfully relocated.<sup>87</sup> According to Minister Ginandjar Kartasasmita,

If [foreign oil contractors] needs are able to be met, at least in part, it would certainly have a positive effect. Apart from foreign exchange earnings, it will absorb workers and provide value-adding...<sup>88</sup>

The rulings had the effect of causing a minor boom in economic activity on Batam Island, and probably had an adverse effect on Singapore's offshore base. The effect of

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<sup>85</sup>Suara Karya, 8 January 1985. Merdeka, 9 January 1985. Business News, 18 January 1985. Pertamina Bulletin, January 1985. Asia Research Bulletin, 31 March 1985, p 1264. Indonesia Development News, Vol.10 No.1 (September/October 1986).

<sup>86</sup>Pertamina Bulletin, January 1985. Singapore Economic Bulletin, January 1985, p 45. Warta Pertamina, Vol.XX, No.5, 1985. Asia Research Bulletin, 31 March 1985, p 1264. Far Eastern Economic Review, 30 November 1989.

<sup>87</sup>Sinar Harapan, 11 October 1985.

<sup>88</sup>Merdeka, 23 December 1985.

Pertamina's initiatives was telling. By late 1986, 33 of the 60 firms holding production-sharing agreements with Pertamina had complied and relocated their operations to Indonesia. The impact on Batam was seen in half a dozen new manufacturing investments by foreign oil servicing companies which began operations in 1986.<sup>89</sup> As a result of the relocations, ten Indonesian companies were also established on Batam Island to service foreign oil contractors, in areas such as warehousing, catering services and equipment repair.<sup>90</sup>

Declining oil prices, however, which in 1982-1983 had been quite gradual and manageable, dropped sharply in 1985-86. This not only caused another severe revenue crisis for the government, necessitating a shift in economic policies towards progressive deregulation of the economy and much greater reliance on the private sector, but also torpedoed Indonesia's bid to build Batam Island into a big oil-services base. As a result, the Pertamina boom was short-lived.

### **The Establishment of Local Government**

BIDA's mission on Batam Island was to plan and supervise development as well as build crucial infrastructure. Because the Batam Island project was seen nationally as economically important, and obviously politically important, BIDA was attached to the President, and as a result was given almost a free hand to steer industrial development. Being a single administration, with the aim of avoiding the lack of inter-agency coordination commonplace in Indonesia, and as an independent authority, BIDA became very powerful in its own right.<sup>91</sup>

BIDA's presence had preceded the establishment of local government, and thus escaped to a large extent interference by provincial Riau and local Batam officialdom in the island's administration. With its office on an adjacent island, local government for Batam Island was poorly equipped, and unable to be responsive to new developments - not just catering to the needs of investors but also in managing the political, social and cultural needs of an ever-increasing population, which grew from 17,000 in 1979 to 90,500 in 1989.<sup>92</sup>

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<sup>89</sup>Jakarta Post, 22 July 1986. Kompas, 21 July 1986.

<sup>90</sup>Indonesia Development News, Vol.10 No.1 (September/October 1986), p11. Exact figures vary. According to another source, by 1987 31 foreign oil companies used Batam as their supply and logistic base. The Jakarta Post, 30 November 1987. It was estimated that Pertamina brought in about 17-18 additional companies from Singapore between 1984-86. Interview with Soedarsono, 6 October 1994.

<sup>91</sup>Interview with former Foreign Minister, Mochtar Kusumaatmadja, 4 August 1994.

<sup>92</sup>BIDA ; Various Sources.

Left out from the beginning, the Riau government continued to protest at the centre, and the Governor of Riau, Maj-Gen Haji Imam Munandar, continued to express concern about the role of BIDA on the island.<sup>93</sup> Support for his cause was to come from the Department of Internal Affairs, which was indignant at being left out of Batam's development, and wanted to have a bigger say on developments on the island.<sup>94</sup> However, it was not until it became clear that existing local government structures were unsuited to the emerging industrial conditions and needs of the community on the island that BIDA also realised it needed upgraded local government for the provision of government services, basic administration and security.

The Regional Autonomy Review Board (Dewan Pertimbangan Otonomi Daerah) examined the local government structure of Batam in its first ever meeting in 1983.<sup>95</sup> The Board discussed various suggestions for local government in Batam - Kota Administratif (City Administration - first tier local government), Kotamadya Administratif (Administrative Mayoralty - first tier), Kotamadya Tingkat II (Mayoralty - second tier) and Kabupaten Tingkat II (Regency - second tier) - finally deciding upon the recommendations of the Tim Persiapan Pembentukan Wilayah Administrasi Pulau Batam dan Sekitarnya (Team for Establishing the Administrative Area of Batam Island and Surrounds) that Batam's administrative status be upgraded from being a Kecamatan (Sub-District) in the Daerah Tingkat II Kabupaten Kepulauan Riau (Riau Islands Regency - second tier local government), to become a Daerah Tingkat I Kotamadya Administratif (Administrative Mayoralty - first tier local government) with three Kecamatan (Sub-districts), the first such Administrative structure in Indonesia.<sup>96</sup> The Kotamadya Administratif Pulau Batam was inaugurated by Government Regulation on 7 December 1983.<sup>97</sup>

The new administrative structure on Batam Island meant that Pemda Riau (Pemerintah Daerah Riau or Riau Local Government) was represented on Batam Island by a Walikota (Mayor) who was directly responsible to the Riau Governor, and not as previously by a Camat (Sub-District Head) who was indirectly responsible to the

<sup>93</sup> *Antara*, 23 November 1982.

<sup>94</sup> Interview with former Foreign Minister, Mochtar Kusumaatmadja, 4 August 1994.

<sup>95</sup> Based on *Keputusan Presiden No.250/1983*, the Board's members included the Minister for Internal Affairs, Minister of Defence and Security, Minister of Finance, Minister for Public Works, Menteri/Ketua Bappenas, Menmud Sekkab, Menpan and Panglima ABRI.

<sup>96</sup> Early discussion and the debates on the form of Batam's local government, and the processes involved can be found in *Antara*, 28 June 1983. *Sinar Harapan*, 7 September 1983. *Suara Karya*, 26 September 1983. *Kompas*, 26 September 1983. *Antara*, 19 November 1988. *Sinar Harapan*, 21 November 1983. *Kompas*, 22 November 1983. *Antara*, 20 December 1983. *Suara Karya*, 21 December 1983. *Kompas*, 22 December 1983.

<sup>97</sup> *Peraturan Pemerintah No.34/1983*, (7 December 1983). For details of organisation and guidelines of the new local government structure see *Keputusan Menteri Dalam Negeri No.68 1983*, (6 December 1983). Interestingly, the governor came out well before a decision had been made to say that Batam would become a Kotamadya Administratif, and although this was refuted by the Dir-Jen Pemerintahan Umum dan Otonomi Daerah (Director-General of Local Government and Regional Autonomy) in the Ministry of Internal Affairs in front of the DPR Komisi II, this was to be the case. *Antara*, 27 September 1983. *Kompas*, 26 September 1983.

Governor through the Bupati (Regent). However, unlike other Kotamadya or Kabupaten, Batam Island did not get a DPRD (Regional Legislative Assembly).<sup>98</sup>

Because of its small population, it was clear that Batam Island did not fulfil the conditions necessary to become a full-fledged Kotamadya, but that the decision to change the local government structure was made in accordance with the level of industrial development and community lifestyle on the island, and in anticipation of future needs. Essentially the Kotamadya would provide government services, take over time-consuming activities such as processing identity cards, and look after social and cultural aspects of development, whilst at the same time providing BIDA with direct access to the Governor.<sup>99</sup>

Despite the changes to local government structures, new problems were to arise, essentially regarding the separation of powers and responsibilities between the two administrative bodies on Batam Island - BIDA and Pemda Riau. It was always to be difficult relationship because both thought that they were the administrator of the island.<sup>100</sup> Whilst the new Batam Kotamadya covered 186 islands, of which Batam was just one, BIDA's area of responsibility covered only the area of Batam Island and not all of the Kotamadya. Yet, as pointed out by the Riau Governor, the Presidential Decree (No.41/1973) which created BIDA, gave it responsibility for *daerah industri Pulau Batam* (Batam Island industrial area), *wilayah Pulau Batam* (Batam Island area) and *areal terletak di Pulau Batam* (land on Batam Island).<sup>101</sup> All three terms had quite different meanings and required clarification, as did the mandates of both BIDA and the Walikota.

A follow-up decree was therefore issued to define the tasks, powers and responsibilities of both BIDA and the local government. It declared Kotamadya Batam as the single government authority on Batam, with the main task of supporting the development of Batam Island, concentrating particularly on social, cultural and political aspects. The development of the Batam Island industrial area was the responsibility of BIDA, and carried out according to the Masterplan. The decree was intended to increase cooperation between BIDA and the Batam local government, and to remove barriers or obstacles in coordinating and implementing their tasks and responsibilities.<sup>102</sup> Whilst the law on local government (Undang-Undang No.5 1974) stated that the Mayor was the single government authority for government administration, economic development,

<sup>98</sup> *Sinar Harapan*, 7 September 1983. *Suara Karya*, 26 September 1983.

<sup>99</sup> *Merdeka*, 13 August 1985. Interview with former BIDA Chief Executive, Soedarsono, 6 October 1994.

<sup>100</sup> Interview with Soedarsono, 6 October 1994.

<sup>101</sup> *Suara Karya*, 28 March 1983.

<sup>102</sup> *Keputusan Presiden No.7 1984*, (23 January 1984). See also *Suara Karya*, 9 February 1984. *Merdeka*, 31 January 1984. *Antara*, 8 February 1984. *Business News*, 10 February 1984.

and socio-political development, on Batam Island the responsibility for economic development was to be BIDA's.<sup>103</sup>

Late in 1984, the President placed five more islands around Batam - Pulau Janda Berhias, Pulau Tanjung Sauh, Pulau Ngenang, Pulau Kasem and Pulau Moimoi - into BIDA's working area and into the bonded zone. BIDA already had the right of management over land on these islands under previous regulations. In announcing the decision, the President said that it was deemed necessary to increase BIDA's working area in order to facilitate the development of the Batam industrial area.<sup>104</sup> It also aimed to consolidate BIDA's authority.

Despite the new definition of responsibilities, it was clear that BIDA was the more authoritative institution, simply because it was both a central government instrument and, as an institution on Batam, it had been there longer. Furthermore, BIDA had special powers, such as over land - Pemda had to request land locations from BIDA to build offices and schools while at the same time have BIDA build these facilities.<sup>105</sup> Such was the lack of power of the local government, that the first Mayor on Batam Island was often teased that his only job was to go back and forth to the airport to meet officials from Jakarta, and to arrange identity cards.<sup>106</sup> A survey conducted in 1986 found that 30% of respondents knew the name of the BIDA Chief Executive, whilst only 7% knew the name of the Mayor.<sup>107</sup>

One glaring example of the poor coordination that existed between BIDA and the Kotamadya was the inaction taken by both sides after a fire destroyed over 300 houses in Sungai Jodoh village in June 1985. The immediate response from BIDA was the announcement that no-one could repair or re-build houses in the same area. Some two months later there was still no word as to where those affected should move, apparently because BIDA and the Kotamadya were still conferring. Reasons given for the delay included that the Kotamadya did not have the power to face up to BIDA, and that BIDA and its officials were arrogant.<sup>108</sup> However, quite clearly the problem was one of poor coordination.<sup>109</sup>

<sup>103</sup> Interview with BIDA Executive, Gunawan Hadisusilo, 10 August 1994.

<sup>104</sup> Keputusan Presiden No.56/1984, (18 September 1984). Antara, 21 September 1984. Kompas, 21 September 1984. Merdeka, 22 September 1984.

<sup>105</sup> Merdeka, 13 August 1985.

<sup>106</sup> Tempo, 22 May 1983.

<sup>107</sup> LIPI ; Aspek Sosial Budaya Pengembangan Pulau Batam, (LIPI 1986), p 33.

<sup>108</sup> Merdeka, 13 August 1985. According to another source, the number of houses was 3,000. Suara Karya, 3 March 1986.

<sup>109</sup> For continuing debate about Dualism, Autonomy, Coordination, etc. see Berita Buana, 19 July 1985. Merdeka, 14 August 1985. Suara Karya, 3 March 1986. Suara Pembaruan, 13 November 1987.

Royalties from the sale of sand to Singapore - Batam had been exporting sand to Singapore for land reclamation purposes for many years - continued to be a contentious issue in relations between the Governor's office and BIDA. There was a local joke on Batam Island - 'Indonesia menjual tanahnya, yang tinggal airnya' (Indonesia sells its land, what remains is its water) in reference to the Indonesia expression for the motherland, 'tanah air kita' (Our land and water).<sup>110</sup>

By 1984, sand was Batam Island's second highest export earner - worth US\$681,800 in the first 9 months of the year.<sup>111</sup> The income collected as royalties from the export of sand from Batam and surrounds was only to be used for the Riau community, yet the royalties for the sand mined were not handed straight over to the local government but were stored in a bank account by BIDA. On being questioned over its use, Habibie denied that BIDA had used any of the money from sand royalties because BIDA was funded by central government funds.<sup>112</sup>

The ongoing conflict between the Riau Governor and BIDA over who should receive the proceeds from the sale of sand from Batam to Singapore became less of a problem after an agreement was reached that royalties from sand from around Batam would go to BIDA and sand from around other islands would go to the Riau Government.<sup>113</sup> However, transfers to the Riau government were only made on the specific orders of the President, and only for the purpose of being used for large and often politically important projects.<sup>114</sup> For instance, in 1983 Habibie handed over Rp1.023 billion to the Riau Governor for the building of the Hangtuah Stadium in Pekanbaru<sup>115</sup>, and a further Rp 692.749.000 for the building of the Lancang Kuning University campus in Pekanbaru.<sup>116</sup>

The settlement, however, was short-lived. Beginning 1985, BIDA began to use the sand royalties for its own purposes, and between 1986 and 1990 they made up the bulk of BIDA's budget, leading Soedarsono to claim that BIDA was able to be financially autonomous and could support itself with only the royalties from the export of sand to Singapore and without help from the central government.<sup>117</sup>

<sup>110</sup> Sinar Harapan, 26 November 1981.

<sup>111</sup> Antara, 21 November 1984. Income from sand royalties was more than Rp800 million in 1981. Sinar Harapan, 26 November 1981.

<sup>112</sup> Merdeka, 19 February 1983.

<sup>113</sup> Sinar Harapan, 21 April 1981. The DPR Komisi X expressed concern that royalties received by BIDA be carefully controlled, and that the sale of land sand, as opposed to sea sand, was closed. Sinar Harapan, 1 July 1981.

<sup>114</sup> Sinar Harapan, 18 February 1983. Merdeka, 19 February 1983.

<sup>115</sup> Sinar Harapan, 18 February 1983. Merdeka, 19 February 1983.

<sup>116</sup> Antara, 6 May 1983.

<sup>117</sup> Suara Karya, 9 July 1987. For budget details see BIDA ; Data Kemajuan Pembangunan Daerah Industri Pulau Batam sampai/dengan Bulan April 1991 (Jakarta 1991).

The administrative set-up on Batam Island whereby two bodies - BIDA and the Kotamadya Batam - had administrative roles was unique in Indonesia. However, whilst legislation was clear about the jurisdiction of the two authorities, serious problems arose at the operational level. There is no doubt that BIDA was the more authoritative, and whilst retaining social and administrative functions, the Kotamadya was not considered in overall planning. Quite clearly, local and regional interests took second priority in the development of Batam Island. This fact was stressed by Habibie.

Batam is for the whole Indonesian development<sup>118</sup>

### **Singapore and Batam Island in the 1980s**

Batam Island was the one constant item on the agenda of Singapore-Indonesia relations throughout the 1980s. Despite the restrictive investment climate and infrastructure inadequacies of Batam Island, the Singapore government continued to express a keen interest in Batam's future development, and continued to encourage the Indonesian government to address those problems. As one Singapore businessman said,

Singapore...often pushes the Indonesian government about when Batam Island will be ready.<sup>119</sup>

During talks in December 1983, and again in December 1984, Singapore Prime Minister, Lee Kuan Yew, re-emphasised Singapore's support for the concept of complementary development between Batam Island and Singapore, and called for the speedy completion of infrastructure as well as greater incentives in order to attract investment. President Soeharto told him that Indonesia's plans to industrialise Batam Island could not be separated from Singapore's growth as one of the foremost trading and financial centres in Asia, stressing that Indonesia would support and benefit from the transformation of Singapore to an advanced modern industrial and service economy.<sup>120</sup> Soeharto said,

We sincerely expect Singapore to expand further as an outstanding financial centre in the world, because such progress will also be beneficial for economic cooperation between Singapore and Indonesia, particularly for the development of Batam.<sup>121</sup>

The main point of discussions throughout the mid to late-1980s was about the slow rate of investment on Batam Island, in particular that Singapore's participation in the development of the island had not been as rapid as anticipated. Lee often reiterated his government's support for the development of the island in the face of Indonesian calls

<sup>118</sup> Far Eastern Economic Review, 7 February 1985.

<sup>119</sup> Jurnal Ekuin, 21 July 1981.

<sup>120</sup> Kompas, 28 December 1983. Straits Times, 28 December 1983. Indonesia Development News, Vol.7 No.5 (January 1984).

<sup>121</sup> Straits Times, 27 December 1983.

for more assistance because of the continued failure to achieve economic growth on Batam.<sup>122</sup> Yet there was considerable doubt in Indonesia about Singapore's commitment to participating in Batam Island's development. Certain circles in Jakarta believed that Singapore had not lived up to the expectations of the 1980 agreement, and should do more to speed up the development of the island.<sup>123</sup>

One reason for this doubt was that Singapore government officials remained cagey about their commitment. Singapore officials denied allegations that Singapore had not been helpful enough in the development of Batam, saying that Singapore's policy had always been to leave it to the private sector to make decisions regarding investing on Batam. Lee often clarified that the Singaporean government would not invest on Batam Island, and that the private sector should make their own commitments, but also adding that Singapore would help woo private investors to invest in Batam Island.<sup>124</sup> However, Deputy Prime Minister Goh Chok Tong, was of the view that the Singapore government was not able to direct private businessmen or industries to invest on Batam Island, because the decision rested solely on the private sector itself.<sup>125</sup>

In June 1986, Goh Chok Tong was forced to deny allegations that Singapore saw the development of the island as a threat to Singapore's pre-eminent position as the regional trade and commercial centre, saying that the Singapore government viewed Batam's development with favour and believed it would be to the benefit of Singapore. Goh told critics in Indonesia that it was wrong to complain about slow progress because a recession was on, and that it was unfair to compare Singapore with Batam because Singapore took 150 years to develop and Batam had only just started.<sup>126</sup> Indonesian diplomats were understanding. At the end of a six-year term in Singapore, Indonesian Ambassador Sujatmiko commented that,

I did not see any competition, because Singapore and Batam cannot be compared.<sup>127</sup>

Lee was also of the opinion that the world recession had caused a drop in investment in Singapore and the region, and that this in turn had affected both Singapore's investment on Batam Island, and slowed Batam Island's take-off.<sup>128</sup> Lee told a press conference in 1983,

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<sup>122</sup> Indonesia Development News, Vol.7 No.5 (January 1984), p8.

<sup>123</sup> Straits Times, 2 April 1985. Straits Times, 5 April 1985.

<sup>124</sup> Straits Times, 27 December 1983. The Jakarta Post, 28 December 1983.

<sup>125</sup> Sinar Harapan, 26 January 1985.

<sup>126</sup> Straits Times, 29 June 1986. The Jakarta Post, 30 June 1986. Berita Buana, 1 July 1986. Kompas, 2 July 1986.

<sup>127</sup> Sinar Harapan, 14 August 1984.

<sup>128</sup> Straits Times, 27 December 1983. Straits Times, 28 December 1983. The Jakarta Post, 28 December 1983. Antara, 3 January 1984.

As President Soeharto says, it is long-term development. There is a recession on at the moment, so investments both in Singapore and even in the region have slowed down.<sup>129</sup>

Whilst this disappointed some Indonesians, official circles were believed to be more understanding, and it appeared that Jakarta believed that the Singapore government was doing as much as it could. Soeharto did not voice the idea that Singapore was in a sense 'morally obliged' to participate in the development of the island but, as the 1980s progressed and the technocrats began their series of regulatory reforms, instead gave precedence to private sector initiatives in conformity with the beginning of a more general liberalisation in Indonesia of administrative and economic mechanisms.<sup>130</sup> When asked if Singapore should be more committed, State Secretary, Sudharmono replied,

No need. Batam is open for anybody to invest. Even if there are no investors interested, no problem.<sup>131</sup>

For the most part, however, the Indonesian press and officials were pushing the line that Singapore had a special obligation to help develop Batam, because Singapore had long prospered because of trade with and its proximity to Indonesia.<sup>132</sup> One exception was a Jakarta Post editorial which, whilst still saying that Singapore should help, also conceded that Batam had to help itself.

The idea, at least in theory, is that Batam, a mere 20 km from Singapore, is in a prime position...But what seemed great on the drawing board a decade ago has run into a number of snags (many of which have plagued other Indonesian development projects). And Singapore has done little more than give its 'support in principle' to the ambitious plans for Batam...But there are some reasons why Singapore has been sitting on its hands when it comes to Batam Island's development - immigration, customs and shipping. Batam's ports are still woefully undeveloped and that old bugaboo, red-tape and corruption, haunts the customs officers in the sea and airports.<sup>133</sup>

Not only had the Batam Cooperation Agreement made little impact on the free movement of people, goods and services between Singapore and Batam Island - the success of Batam depended largely on free traffic between Singapore and Batam, and between Batam and other Indonesian ports, yet the three biggest obstacles to Indonesia's competitiveness in trade and manufacturing were immigration, customs and

<sup>129</sup> Straits Times, 28 December 1983.

<sup>130</sup> Straits Times, 5 April 1985.

<sup>131</sup> Straits Times, 4 April 1985.

<sup>132</sup> Straits Times, 6 April 1985.

<sup>133</sup> Jakarta Post, 2 April 1985. Straits Times, 3 April 1985.

shipping - but Batam was beset with a poor regulatory environment and inadequate infrastructure.

Batam Island had to help itself first, by improving facilities, cutting red tape and combating corruption. It was already a very real problem that Batam Island did not satisfy most of the preconditions for becoming an industrial and commercial centre, in particular in transport, infrastructure and labour. However, the biggest threat did not just come from inadequate infrastructure and public facilities but from bureaucratic red tape. Being devoid of natural resources, Batam Island could only capitalise on efficiency, attractive regulations and an adequate supply of skilled and relatively low-cost labour.

It was also becoming clear to Jakarta that investment was a matter between the private sector and BIDA.<sup>134</sup> This was being stressed by Singapore all along. Lee's view was that it was not true that Singapore did not want to participate in development projects on Batam, but that Batam Island itself had to further develop infrastructure to attract Singapore investors.<sup>135</sup> Lee told Soeharto,

We have made every effort to facilitate the wooing of investors. But the wooing must be done by the Batam Authority itself. They have to deal with the nitty-gritty, the nuts and bolts of incentives and facilities.<sup>136</sup>

The Indonesian government and Habibie were aware of the importance of Singaporean involvement on Batam, and had recognised Singapore's two major restraints, land and labour, but they had failed to come to terms with how to attract industries facing those constraints and staying competitive in Singapore. Because of its proximity, Singapore could be the only major foreign contributor to a rapid development of Batam Island. Singaporean investment had already made an impact on other neighbouring regions - Johor, Sarawak and Brunei - but continued to by-pass Batam Island.

The Indonesian government may well have been convinced of the need for close cooperation with Singapore, but the type of nationalist reaction which had greeted the signing of the Batam Cooperation Agreement in 1980 would have been firmly in the front of their minds. There is no doubt that any massive inflow of foreign investment to Batam from Singapore, which in the nature of the case would be predominantly Chinese, could give rise to concern in certain political circles in Indonesia, and could further exacerbate Chinese-pribumi political tensions in Indonesia.<sup>137</sup>

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<sup>134</sup> *Straits Times*, 6 April 1985.

<sup>135</sup> *Berita Buana*, 4 April 1985.

<sup>136</sup> *Straits Times*, 27 December 1983.

<sup>137</sup> *Asian Finance*, 15 June 1988, p 75.

There was one further hiccup to overcome before Singapore would actively invest on Batam. Lee had agreed to support Batam on the condition that gambling should never be allowed as part of the island's tourism development. This had been settled and agreed upon by Indonesia in 1979. However, Singapore's concerns resurfaced with the March 1988 opening of the Hill Top Hotel, whose "members-only club" was running jackpot machines, keno, mahjong, blackjack, roulette and baccarat. A month after its opening, in reportedly the biggest ever police action on Batam, the Hill Top Hotel was raided by a special military and police task force flown in from Jakarta.<sup>138</sup>

The hotel's operations were no secret - media reports preceding the raid abounded with stories about the casino at the Hill Top Hotel, leading to accusations that Batam Island had become an enclave with special status because gambling had been banned in Indonesia in April 1981.<sup>139</sup> Following media criticism that Batam Island had become an unofficial gambling haven for rich Indonesians, Habibie said that the Indonesian government had received several offers to start legalised gambling on Batam, but that all had been rejected because gambling had been disallowed throughout Indonesia, and Batam Island would be no exception.<sup>140</sup>

Major-General (ret) Ibnu Hartomo, the brother of the President's wife, Tien, came out to say that a gambling operation he once started on Batam Island was forced to shut down following talks between Indonesia and Singapore. He said that the operation was stopped because of the disagreeable reaction in Singapore, and had led to an agreement being made with the Singapore government not to allow gambling on the island.<sup>141</sup> The quick action taken against the casino, however, allayed Singapore's fear that gambling would be permitted on Batam Island.

When Lee Kuan Yew and Soeharto met in Singapore in December 1988<sup>142</sup>, the rhetoric of the previous decade of discussions on Batam Island continued to be repeated. The positions of both governments had changed little over the years. In fact, meetings and bilateral consultations between Singapore and Indonesia had become so frequent as to be unremarkable, and discussions about Batam Island equally so.

<sup>138</sup> Straits Times, 7 April 1988. Tempo, 16 April 1988. Straits Times, 23 April 1988. Tempo, 30 April 1988. For details of the court trial see Tempo, 21 January 1989.

<sup>139</sup> Straits Times, 7 April 1988. Merdeka, 27 April 1988.

<sup>140</sup> Merdeka, 18 June 1988. Suara Pembaruan, 18 June 1988. Straits Times, 19 June 1988.

<sup>141</sup> Anthony Salim denied that his father had any links to the plan. Straits Times, 15 July 1988. Editor, 16 July 1988.

<sup>142</sup> The Jakarta Post, 28 December 1988.

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The results of the decade of development to 1988 were surprisingly poor. In particular, BIDA made little headway in attracting new foreign investment. In the period 1978-1988, little more than half-a-dozen new foreign investments had been realised - one was a hotel first planned in the early 1970s and the rest were related to the oil-industry, the result of Pertamina policy initiatives. By the end of 1988 only thirteen foreign companies were operating on Batam, while export earnings amounted to only US\$44.2m. The only new economic activity to make an impact was tourism, which earned US\$30.5m in 1988, making up 41% of total foreign exchange earnings. At a regional level, Batam's GDP was only 3.5% of the Riau economy, its growth only slightly higher than Riau province, and its share of Riau's manufacturing sector only 16% in 1988, up from 5% in 1983.<sup>143</sup>

Potential investors continued to express reservations about the level of infrastructure, the regulatory environment as well as existing incentives. BIDA appeared to be responsive to existing investor's infrastructure needs, for government investment accounted for around 40% of total investment on the island, yet was still unable to supply enough electricity and water. As far as the regulatory system was concerned BIDA showed a complete lack of insight. The government did occasionally respond to the needs of existing investors, such as providing relaxed immigration procedures and labour conditions<sup>144</sup>, however no attempt was made at policy changes or initiatives to make Batam Island a more attractive location for new investment. BIDA and Batam Island enjoyed special status. Neither the various sectoral ministries in Jakarta or provincial authorities in Riau were willing or able to interfere.<sup>145</sup> As a result, Batam Island remained a virtual enclave, unresponsive to outside influence, either from government or business. A Jakarta Post editorial quite succinctly described the overall situation on Batam Island in the late 1980s :

Soedarsono Darmosoewito likes to apply B. J. Habibie's balloon theory in stressing the rationale for the development of Batam island, 20 kilometres southeast of Singapore, as a commercial and industrial centre. The balloon theory says that as Singapore (the first balloon) will grow to its optimal size, the island republic will need a valve (another balloon) - the role expected to be played by the 415-square kilometre Batam island. But there are many factors which will determine whether Batam can supplant other countries close to Singapore as the second balloon for the city

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<sup>143</sup> Mubariq Ahmad ; "Economic cooperation in the Southern Growth Triangle : An Indonesian perspective" in Toh Mun Heng & Linda Low (eds) Regional Cooperation and Growth Triangles in ASEAN (Times Academic Press, Singapore 1993), pp 96-97.

<sup>144</sup> Two recent Ministerial decrees had slightly loosened labour conditions on Batam Island. The first gave the Batam Manpower office authority to issue interim permits for foreign workers. Surat Keputusan Menteri Tenaga Kerja No.Kep-165/MEN/87 (7 February 1987). The second set a minimum wage for workers on Batam Island. Surat Keputusan Menteri Tenaga Kerja No.Kep-117/MEI/88 (22 January 1988).

<sup>145</sup> Asian Finance, 15 June 1988, p 75.

state. Soedarsono and Habibie, as the executive director and chairman respectively of the Batam Industrial Development Authority (BIDA), are responsible for ensuring that Batam assumes that role.

Batam, like Singapore over one hundred years ago, has no natural resources, but is in a strategic location - near key international shipping lanes. Industrial enterprises on this island must bring all basic materials from outside (other Indonesian islands or foreign countries) and they must also depend entirely on outside markets. Therefore, Batam has to provide the type and quality of service and facilities which have so far attracted industrial enterprises to Singapore.

The Indonesian government is fully aware of these fundamental requirements, as can be seen in the establishment of BIDA as the sole authority in charge of development on that island and the designation of the entire island as a bonded zone. The government, through BIDA, has invested over US\$280 million in the island's development and many firms have established operations there. But the pace of Batam's development has not been as fast as expected and most of the businesses on the island are still oriented to the domestic market, notably the oil and natural gas industry. Obviously, the weakening economic condition has been a major factor in this slowdown. Moreover, the severely limited government budget has resulted in a sharp decrease in the building of basic infrastructures, public facilities and utilities.

Consequently Batam still doesn't satisfy most of the preconditions for becoming an industrial and commercial centre. Its transshipment facilities, power capacity, supply of trained and skilled labour and telecommunication networks are still inadequate. Labor costs on the island are much higher than in the rest of the country because the cost of living there is also much more expensive.

Investment licensing has indeed been expedited after the full delegation of authority from the Investment Coordinating Board (BKPM) to BIDA. But other procedures such as customs, immigration and other regulatory requirements which are outside BIDA's power are not as efficient as they should be to attract investors. In fact, the biggest threat to Batam's development will not come from inadequate infrastructure and public facilities but from bureaucratic red tape. Batam should be able to develop a working environment on a par with international efficiency levels. All government agencies on the island should be strikingly different from those in other parts of the country in terms of efficiency otherwise Batam will not be much different from other Indonesian island. Batam, being devoid of natural resources, can capitalise only on efficiency, good infrastructure and adequate supply of skilled and relatively low-cost labour. Efforts to develop Batam should therefore be concentrated on these factors.<sup>146</sup>

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<sup>146</sup>The Jakarta Post, 16 February 1987. For a more in-depth and broad assessment of Batam Island at the end of 1988, see the various articles which appeared in Kompas, 2 November 1988.

Perhaps the major problem for Batam Island was its record. It had been presented so often as on the verge of booming that it had fallen into a credibility gap. Batam Island needed something new, or something to change, in order to get its development off the ground. An Indonesian newspaper editorial had warned as early as 1983 that,

There is a danger that the concept of developing Batam Island could suffer what is called 'oversell' by public relations people.<sup>147</sup>

### **Policy-making**

During the 1980s, the policy-making processes on Batam were highly centralised and generally insulated from non-state pressures, and only one feature consistently influenced the policy processes - Presidential Domination. Clientelism was apparent, as was Intra-elite conflict, but neither played a consistent or significant part in the policy-making processes, while non-state pressures, societal and external, were virtually non-existent.

Dominating the policy-making structure for Batam Island was President Soeharto, and he became its strongest advocate. Whilst his influence was not obvious on a daily basis, Soeharto was the key player in the policy-making processes, leaving the major daily decision-making to Habibie. At the same time, Soeharto encouraged Habibie's emphasis on capital-intensive and technology-driven investment and supported the huge government expenditures on infrastructure development. Soeharto made this clear when he took half of the new Indonesian cabinet to Batam in late 1983 as a show of support for Habibie's policies and to cut off possible dissent within government ranks.

Unlike in previous periods, key features of Indonesian political economy such as Clientelism and Intra-Elite Politicking were virtually absent during this phase of Batam's development. The reason for this situation was that Batam was politically and economically unimportant in relation to overall developments in Indonesia.

Habibie had complete control over developments on Batam, and was largely unaffected by interference from the technocrats. This was clear by the way in which Habibie quickly changed the focus of development away from the technocrats' target of broad-based industrialisation towards intermediate, high-technology and capital-intensive industries. Under Habibie, the state monopolised economic policy and activity on Batam - it was the main investor and it tightly controlled the activities of the private sector through restrictive economic nationalist policies such as the DSP. For example,

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<sup>147</sup> Editorial. *Sinar Harapan*, 13 May 1983.

the boom period of 1984-85, which was limited solely to the oil sector, was closely related to a decision/policy from the central government.

If the technocrats had wanted to make regulatory reforms for Batam Island, they did not have much success - Habibie was in firm control and apparently not to be budged from his policy of regulating investment behaviour on Batam. However, considering the enormous changes taking place at the macro-economic level where the technocrats had greatest influence, it is likely that Batam was of little interest to them. In the mid-1980s, declining world oil prices necessitated a shift in economic policies towards progressive deregulation of the Indonesian economy, and it was at this level that the technocrats were most focused for a good part of the decade.

Clientelism was not an obvious feature of the policy-making processes during the 1980s. This was mainly due to the fact that limited economic activity had removed a source of patronage for possible patron-client relationships to develop. Perhaps more importantly, however, Batam was not a particularly attractive location for domestic investors who were still commercially timid, and more interested in domestic markets than in an industrial zone catering to export-oriented manufacturers.

Pluralist pressures, particularly non-state societal influences, on the Batam project were very weak. The reason for this lay in the fact that the local population was small in number - around 50,000 - and thus politically marginal. Despite the creation of the Batam Mayoralty in 1983, thanks to strong support from the Department of Internal Affairs, the Riau provincial government remained weak vis-a-vis BIDA and the national government. Both the DPR and the Mass Media were outspoken on issues such as land acquisition and compensation, and the role of local government, but neither had any substantial influence on the policy-making processes.

The international economic system had an impact on the policy choices facing Batam Island. In particular, reliance on the oil industry meant that the fortunes of Batam were strongly tied to those of international oil markets. As a result, the downturn in the international oil sector during the mid-1980s adversely affected the Batam Island economy.

However, the influence of external variables was less apparent than in the past. International capital had minimal impact on the policy-making processes, perhaps due solely to the fact that there were only thirteen foreign companies in operation by 1988, half of which had been forced to relocate to Batam from overseas by nationalist measures implemented by Pertamina.

As for foreign governments, Singapore was still an important external consideration in the minds of Indonesia's policy makers, and Batam remained a topic on the agenda of talks between Soeharto and Lee. However, despite the signing of the Batam Cooperation Agreement in 1980, the Singapore government was unable to achieve its main objective - the development of the Batam industrial area for relocating Singapore companies. Nonetheless, the Singapore government continued to be a policy consideration simply by virtue of its geographical proximity.

## 6

### **Batam Island in the 1990s**

Two crucial events in 1989 made Batam Island a more attractive investment location. The first was an agreement between Indonesia and Singapore to closely cooperate in the development of Batam. The second was a regulatory change which allowed 100% foreign ownership of enterprises on Batam. Those two events led to an economic boom on Batam in the early 1990s, one that appears sustainable for the rest of the decade. After more than two decades of promise, Batam Island looks set to reach its long-awaited fulfilment as an industrial, transshipment and tourist area. However, Batam still faces numerous problems. Infrastructure development remains inadequate, the regulatory environment is stifling, government coordination is poor, and economic nationalist structures remain in place.

#### **The Second Indonesia-Singapore Agreement on Batam**

In 1989, Indonesian and Singaporean aims for Batam Island finally converged. Whilst earlier attempts at cooperation received little attention in Singapore and Indonesia, mainly because each had other goals and priorities - the 1980 Batam Cooperation Agreement, in particular, had achieved little in terms of cross-border movements of capital and goods - in 1989, it became clear that leaders in both countries wanted to cooperate in Batam's development.

Singapore had its own reasons for encouraging cooperation, and like Indonesia they were purely self-interested. Singapore had land and labour constraints which could only be overcome by the relocation of Singaporean and multinational companies, especially labour-intensive and electronics operations. Private Singaporean interest in Batam Island had already picked up considerably, and throughout 1988 and 1989, study missions, business forums and invitations to invest in the island had raised the attention of Singaporean businessmen, developers, manufacturers and the public. Yet, despite increased interest, the feedback from missions such as that of the SMA (Singapore Manufacturers Association) which inspected Batam in July 1989 could generally be summed up with one word - caution.<sup>1</sup>

The reservations held by potential investors concerned the level of infrastructure and existing investment incentives on Batam Island. Indeed, according to then Junior

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<sup>1</sup>*Business Times*, 20 July 1989.

Minister for Industry, Tungky Ariwibowo, several major problems, especially shortages of electricity and water, still needed to be overcome on Batam.<sup>2</sup> However, despite the fact that its facilities may have been relatively basic, Batam had become an attractive option because the neighbouring Malaysian state of Johor, which had long been a popular place for relocation of companies in Singapore, was becoming expensive and experiencing bottlenecks. After years of hesitation, developments indicated that Batam might become an alternative to Johor for the relocation of some of Singapore's labour-intensive manufacturing industries. Essentially the change in attitude was a defensive action on Singapore's part.<sup>3</sup>

At the beginning of 1989, Singaporean officials believed that it was time to take another look at Batam Island. Two independent but convergent routes were taken. In late 1988, the Singapore government was becoming increasingly concerned with the growing number of MNCs based in Singapore relocating to elsewhere in the region, and began looking at ways in which Singapore could both maintain MNCs as well as remain a competitive and attractive investment location.<sup>4</sup> An important study, supervised by the Head of the MAS (Monetary Authority of Singapore), Goh Keng Swee, concluded that an industrial estate on Batam Island would assist in maintaining Singapore as a beachhead for direct investments in the region. A proposal about ways Singapore and Indonesia could cooperate on this was made to the EDB (Economic Development Board).<sup>5</sup>

EDB Chairman, Philip Yeo, also visited Batam Island, following an invitation by Indonesian Ambassador to Singapore, Tuk Setyohadi, and came to the conclusion that an industrial estate on Batam Island would not only help maintain Singapore's growth but would create significant investment and employment opportunities for Indonesia.<sup>6</sup> Considering the infrastructure inadequacies of Batam, the EDB concluded that major Singaporean companies should take the lead and pave the way for smaller companies to follow by developing infrastructure and providing confidence.<sup>7</sup> This attitude was widely supported in Singapore where businessmen closely followed the series of Singapore and Indonesian government talks which followed with much interest,

<sup>2</sup>Straits Times, 15 November 1989. Jakarta Post, 14 November 1989.

<sup>3</sup>Interview with former Singapore Ambassador to Indonesia, Barry Desker, 23 September 1994.

<sup>4</sup>Interview with former minister and head of the MAS, Goh Keng Swee, 29 September 1994. See also Goh Keng Swee ; "The Technology Ladder in Development : the Singapore case" Asia-Pacific Economic Literature Vol.10 No.1 (May 1996), pp 1-12.

<sup>5</sup>Straits Times, 2 August 1991.

<sup>6</sup>Singapore Business, August 1991. Straits Times, 2 August 1991. As Head of the MAS (Monetary Authority of Singapore) in the 1980s, Goh had commissioned studies to monitor MNCs based in Singapore and determine how they could be maintained in Singapore, in response to a trend of MNCs re-locating to Malaysia and Thailand. Interview with Goh Keng Swee, 29 September 1994.

<sup>7</sup>Business Times, 20 July 1989. Business Times, 5-6 August 1989. Straits Times, 6 September 1989.

reportedly exerting considerable pressure on Singapore to encourage Indonesia to make regulatory changes.<sup>8</sup> According to one businessman,

I think you need some leaders to provide the confidence. If a really big business set up operations [on Batam], then the rest will be encouraged.<sup>9</sup>

The EDB's proposal was taken up by Singapore Prime Minister, Lee Kuan Yew, and during discussions with President Soeharto in Brunei on 2 August, Lee raised the possibility of multinational companies, particularly those in electronics, getting terms and conditions for investments in Batam similar to those in Singapore, so that they could consider Batam when expanding.<sup>10</sup> Lee's idea was well received in Jakarta, for the initiative coincided with Indonesia's push for a more open and less regulated economy, in part to attract foreign investment.

Despite the fact that Indonesia had long concentrated on developing its resources, including Batam Island, in a nationalistic manner, several factors led to a dramatic change in attitude towards cooperation with Singapore. In particular, there was a strong feeling that the government was 'running against time' in its efforts to attract investments to Batam Island and elsewhere in Indonesia, and that changes had to be made - both regulatory and in attitude. Furthermore, the Indonesian government, having long experienced barriers in Batam's development such as limited funds and poor investor interest, realised that great potential lay in cooperation with Singapore. At the same time, Singapore provided extra pressure on Soeharto and Habibie to make the regulatory changes the technocrats had long been pushing. The extent to which Singapore's wishes were accommodated was indicative of the close relationship between Soeharto and Lee. It may also have been indicative of Singaporean financial assistance - the injection of over US\$100m. of foreign aid into BIDA's budget for the financial year 1989/1990 may have been more than simply coincidence.<sup>11</sup>

Habibie had long been interested in attracting electronics MNCs to Batam Island, even if simply to supply parts and components for assembly in Singapore, for they conformed with his aims for technology-based industries on Batam Island. In fact, already one MNC, French electronics company Thomson S.A., had established an

<sup>8</sup>Far Eastern Economic Review, 30 November 1989.

<sup>9</sup>Business Times, 5-6 August 1989.

<sup>10</sup>Straits Times, 3 August 1989. Business Times, 5-6 August 1989. According to State Secretary Murdiono, questions of greater cooperation over the development of Batam were first raised when they met in Brunei. Straits Times, 8 October 1989. Straits Times, 2 August 1991.

<sup>11</sup>OPDIPB ; Data Kemajuan Pembangunan Daerah Industri Pulau Batam sampai/dengan bulan April 1991 (Jakarta, 1991).

assembly plant on Batam because of worker shortages and costs in Singapore.<sup>12</sup> The question for Habibie, however, was what kind of technology would be utilised by relocating companies and what kind of incentives were needed.

On 5 September, Habibie visited Singapore to meet First Deputy Prime Minister, Goh Chok Tong, and the EDB's Philip Yeo, to discuss Singapore's experiences with MNCs as well as to visit the operations of several electronics MNCs. Convinced of the possibilities, Habibie immediately announced that he was open to labour-intensive high-technology industries, particularly electronics operations, on Batam Island.<sup>13</sup> Habibie also suggested the formation of a government-level working committee to find ways to discuss, evaluate and suggest areas for cooperation in order to boost economic development on Batam.<sup>14</sup>

On 24 October 1989, the Indonesian government announced policy changes which provided for 100% foreign ownership on Batam Island, the only condition being a 5% divestment to an Indonesian partner within five years.<sup>15</sup> The policy differed radically from the rest of Indonesia where domestic ownership had to reach 51% within 15 years, and essentially made Batam Island a special economic zone, allowing foreign investors to set up companies without a local partner.<sup>16</sup> The insistence that Indonesians hold at least 5% equity was a matter of contention, especially for electronics companies concerned about losing sensitive technology to their partners. However, the ruling appeared to be a compromise, catering to both Indonesian nationalist sentiments by maintaining an element of domestic ownership in foreign investment projects, and at the same time being designed to guard technology as demanded by electronics firms.

One view is that a hefty diplomatic push from Singapore, in addition to Lee's personal urging to Soeharto during discussions held in Jakarta on 6 October, persuaded Jakarta to make changes to foreign ownership of enterprises on Batam Island.<sup>17</sup> The validity of that view is not clear, but it certainly does hold some merit.<sup>18</sup> Nevertheless, it is clear

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<sup>12</sup>They had subcontracted to CV New Paris Group, a PMDN company. Despite additional shipping costs they claimed to save S\$1 million in the first year alone. Construction Industry Development Board ; Batam Outlook 1990, (Singapore, October June 1989), p 5.

<sup>13</sup>Straits Times, 6 September 1989. Straits Times, 7 September 1989.

<sup>14</sup>Business Times, 7 September 1989. Straits Times, 7 September 1989.

<sup>15</sup>If a company exported 100% of its products no further divestment would be necessary. Surat Keputusan Ketua BKPM No.16 (24 October 1989).

<sup>16</sup>Far Eastern Economic Review, 8 March 90 , p37.

<sup>17</sup>Lee also called for tax concessions. Far Eastern Economic Review, 19 October 1989. The Jakarta Post, 3 November 1989.

<sup>18</sup>Lee's comments infer that no decision had been made at the time of his meeting with Soeharto. Indeed, it was only following those discussions that the Indonesian cabinet decided to relax the rules governing foreign investment on Batam Island. However, according to both Lee and Soeharto at the time, the decision had been made at a cabinet meeting prior to their meeting (a week before). Straits Times, 7 October 1989. Tempo, 14 October 1989.

that Singapore provided a persuasive argument. Lee was adamant that regulatory changes were necessary.

If the rules are changed, industrial development in Batam will be very fast; but if you don't change the rules, the majority of investments will continue to go to Johor.<sup>19</sup>

A further policy change in late 1989, allowing both private foreign and domestic companies to set up industrial estates in Indonesia, was to be decisive for Batam Island. The decision was aimed firstly at circumventing infrastructure problems faced by investors, for industrial estates would provide electricity, water, telecommunications, housing and factory space for investors.<sup>20</sup> It also paved the way for a Singaporean-led industrial park on Batam.

The advantage of making changes for Batam Island was clear - Batam Island's special status and BIDA's control mechanisms, meant that changes to regulations could be implemented with minimal objections. Despite concerns raised in nationalist circles in Indonesia, Batam Island was a long way from Jakarta and thus was of relatively minor political importance. In response to concern in Indonesia about the role of Singapore in Batam's development, Foreign Minister Ali Alatas stated that he did not see Singapore's move to boost cooperation on Batam as being motivated by other than "purely economic calculations of comparative advantage."<sup>21</sup> According to Habibie, the relaxation of investment rules on Batam was,

For all countries, not just Singapore.<sup>22</sup>

Specific details of joint cooperation on Batam Island were discussed by a joint working committee comprising of five high-level officials from both Indonesia and Singapore.<sup>23</sup> According to Habibie, the main goal of the committee was to "increase co-operation and accelerate activities in areas which are mutually beneficial to both countries, especially with respect to the development of Batam", with top priority on evaluating and suggesting means to improve the basic infrastructure of Batam, in particular water, electricity and telecommunications.<sup>24</sup> At the first meeting held in Jakarta on 5-6

<sup>19</sup>Far Eastern Economic Review, 30 November 1989.

<sup>20</sup>Keputusan Presiden No.53 1989. Another favourable regulatory change provided investors with access to Indonesia's domestic market, deciding that processing industries exporting to the rest of Indonesia were subject to customs duties only on imported raw materials and not the finished product. Far Eastern Economic Review, 8 March 1990, p37.

<sup>21</sup>Straits Times, 24 November 1989.

<sup>22</sup>Tempo, 14 October 1989.

<sup>23</sup>Singapore was represented by EDB Chairman Philip Yeo, Dr Goh Keng Swee, Singapore Ambassador to Indonesia, Barry Desker, and representatives from JTC (Jurong Town Corporation) and other government bodies. Indonesia was represented by BIDA Chief Executive Soepandi, Indonesian Ambassador to Singapore, Tuk Setyohadi, BKPM Chairman, Sanyoto, Assistant to the Coordinating Minister for Economy, Finance and Industry, Professor Billy Yudono, and Mr Gunawan, Deputy Head of Bappenas. Straits Times, 27 December 1989. Construction Industry Development Board; Batam Outlook 1990, 2nd Edition, (Singapore, June 1990), p 12.

<sup>24</sup>The Straits Times, 27 December 1989.

December, discussions about the EDB's proposal for an industrial park on Batam Island only confirmed behind-the-scenes negotiations during the previous months. Having gained an investment waiver for electronics companies worried about intellectual property rights and 'piracy' in any relocation to Batam Island, and having found a suitable land site and an Indonesian partner, all that was needed was a formalisation of existing agreements.<sup>25</sup>

Batamindo Industrial Park (BIP), a joint venture between Indonesian and Singaporean companies, was formalised by a Memorandum of Understanding and Joint Venture Agreement on 11 January 1990. The coming together of BIP marked a turning point in Indonesian-Singaporean cooperation on Batam Island and perhaps did more than anything to change Singaporean awareness of Batam.<sup>26</sup> According to Singapore Trade and Industry Minister, Lee Hsien Loong,

Combining the resources, experience and expertise of Indonesia and Singapore will create a good investment environment for both countries, and facilitate efforts to attract large multinational corporations for their mutual benefit.<sup>27</sup>

The success of BIP, both in terms of an example of what could be achieved by joint Singapore-Indonesia cooperation, and in terms of attracting investment, led Indonesia to become interested in the Growth Triangle concept put forward by Singapore. The adoption of the Growth Triangle, and the creation of new joint projects significantly expanded cooperation between the two nations, economically and geographically. (See Chapter Seven).

The major policy changes implemented by the Indonesian government, together with the interest and strong support of the Singapore government, were instrumental in overcoming the earlier reluctance of Singaporean and foreign investors, and led to a surge of investment into Batam. Batam Island became both a privileged and attractive investment location in Indonesia, and for the first time attracted serious investor attention from Singapore and elsewhere.

### **Economic Activity, 1989-1995**

Batam Island experienced a boom in economic activity in the 1990s, particularly in the period 1990-1992. Encouraged by changes to Batam's investment regime which allowed for 100% foreign ownership, foreign investors rushed into Batam in 1990. Approved foreign investment in 1990 was double that of 1989, and almost five times

<sup>25</sup>*Straits Times*, 24 November 1989. Interview with Barry Desker, 23 September 1994.

<sup>26</sup>Interview with Barry Desker, 23 September 1994.

<sup>27</sup>*Indonesia Development News*, Vol.13 No.4 (March/April 1990).

that of 1988. Foreign investment has remained strong since - total cumulative foreign investment increased from US\$428m. in 1989 to US\$1,873m. at the end of 1994.<sup>28</sup> (See Table 6.1).

A major factor behind the boom was the role played by Singapore in encouraging foreign companies in Singapore to relocate to Batam, and providing various incentives to do so.<sup>29</sup> More than one company has claimed that encouragement from the Singapore government was a key factor in the decision to establish business on Batam. According to a Japanese company executive, his company had decided to invest on Batam,

...because it is strongly supported by the governments of both Indonesia and Singapore.<sup>30</sup>

Foreign investors have given other reasons for investing in Batam - because of Batam's bonded zone status; to take advantage of abundant and low-cost labour; to take advantage of proximity to Singapore and its modern commercial, banking and transport facilities; to cater for the Singapore market, particularly in tourism; and to a lesser extent to service the logistics-base nature of Batam, especially in steel, iron and oil mining equipment.

**Table 6.1**

**Approved Foreign Investment (Cumulative) on Batam Island, 1980-1994<sup>31</sup>**

Year	US\$million
1980	41
1981	49
1982	58
1983	206
1984	215
1985	222
1986	223
1987	223
1988	289
1989	428
1990	684
1991	1,055
1992	
1993	1,648
1994	1,873

<sup>28</sup>Figures for total cumulative private investment, foreign and domestic, show an increase from US\$2,199m. in 1990 to US\$4,169m. in 1994. BIDA ; Various sources.

<sup>29</sup>For instance, companies relocating their industrial plants to Batam are freed from paying Singapore income tax. *The Jakarta Post*, 11 January 1991.

<sup>30</sup>*Business Times*, 15 October 1992. Reuters Textline 15Oct92. See also comments made by the President Director of PT Singatronics Batam that his company chose Batam simply because Singapore was behind it. *Business Times*, 15 April 1992.

<sup>31</sup>BIDA ; Various sources.

Singapore companies led the way on Batam, overtaking the USA as the largest foreign investor on Batam in the first quarter of 1990.<sup>32</sup> The number of Singaporean companies increased from five in 1989, with an investment of US\$36.3m, to 38 by the end of 1994, with an investment of over US\$1,000m.<sup>33</sup> Singaporean investments remain the major source of FDI on Batam, accounting for almost fifty per cent of total foreign investment and a third of all foreign companies. However, whilst Singapore is the leading foreign investor on Batam, it is clear that its investments are dominated by Japanese, American and European MNCs based in Singapore and by Singapore state enterprises. The Director of General Affairs of JETRO (Japan External Trade Organisation) described foreign investment on Batam as a "billiards business", because while the nationality of many companies on Batam was Singaporean, the money was in fact from elsewhere.<sup>34</sup>

**Table 6.2**

**Foreign Companies on Batam Island, 1969-1995<sup>35</sup>**

	Sing.	USA	Japan	Neth.	H.K.	Taiw.	Aust.	Other	Total
1969	-	1	-	-	-	-	-	-	1
1970	-	1	-	-	-	-	-	-	1
1971	2	2	-	-	-	-	-	-	4
1972	2	2	-	-	-	-	-	-	4
1973	2	3	1	-	-	-	-	-	7
1974	2	4	2	-	-	-	1	2	11
1975	2	4	2	-	-	-	1	2	11
1976	-	4	2	-	-	-	1	1	8
1977	-	4	2	-	-	-	1	1	8
1978	-	4	2	-	-	-	1	2	9
1979	-	4	2	-	-	-	1	2	9
1980	-	4	2	-	-	-	1	2	9
1981	-	4	1	-	-	-	1	2	8
1982	-	4	1	-	-	-	1	2	8
1983	-	4	1	-	-	-	1	2	8
1984	-	-	-	-	-	-	-	-	-
1985	-	-	-	-	-	-	-	-	-
1986	-	-	-	-	-	-	-	-	13
1987	-	-	-	-	-	-	-	-	-
1988	-	-	-	-	-	-	-	-	-
1989	-	-	-	-	-	-	-	-	-
1990	3	6	2	1	-	-	-	3	15
1991	17	8	5	2	-	-	-	6	38
1992	-	-	-	-	-	-	-	-	-
1993	33	15	14	3	4	1	-	13	84
1994	38	16	24	3	4	2	-	20	107

<sup>32</sup>Far Eastern Economic Review, 5 March 1990, p36.

<sup>33</sup>Business Times, 20 July 1989. Business Times, 5-6 August 1989. BIDA ; Barelang : Development Data up to June 1993.

<sup>34</sup>Indonesia Business Weekly, Vol.II No.6, 21 January 1994.

<sup>35</sup>BIDA ; Various sources.

Singaporean investors are dominated by GLCs and large companies. A business survey conducted in September 1992 by the Singapore Manufacturers Association (SMA), a grouping of mainly small and medium-sized manufacturers, found that only 4.5% of respondents had invested on Batam. The survey revealed that investors were predominantly larger companies because they are more likely to possess the financial strength and management expertise for operating across national boundaries and that most were from the electronics and electrical industry.<sup>36</sup> Next to Singapore, the two biggest investors in terms of total investment and number of companies operating, are Japan and the USA. Other major investors include the Netherlands, Hong Kong and France. (See Table 6.2).

Equally important on Batam is that not only did the volume of economic activity change after 1989 - the value of exports increased from US\$53m. in 1989 to US\$1,389m. in 1994 (See Table 6.3) - but the nature of that economic activity changed the face of development. This is clear from the composition of exports. In 1988 the main exports were oil equipment worth US\$23m, steel pipes worth US\$4m and clothing worth US\$4m. In 1992, the main export item was electronics components worth US\$247m., jewellery worth US\$120m. and oil equipment worth US\$119m.<sup>37</sup>

**Table 6.3**

**Export Value from Batam Island, 1986-1994 (in US\$m)<sup>38</sup>**

Year	US\$million
1986	21
1987	27
1988	44
1989	53
1990	152
1991	242
1992	565
1993	926
1994	1,389

<sup>36</sup>The details of nature of industry operating were : Electronics and Electrical - 30%, Metal and Machinery - 12.3%, Rubber and Plastics - 8.6%, Food and Beverage - 6.2%, Other Manufacturing - 36.9%, Non-manufacturing - 6.2%. Singapore Manufacturers Association ; SMA Survey Report on the Johor-Singapore-Riau Growth Triangle (Singapore, September 1992). The SMA has been essentially shut out of Batam because of its negative list and is currently more interested in Bintan Island because of its less restrictive conditions. In contrast to the SMA, Singaporean companies grouped under the Construction Industry Development Board (CIDB) and Real Estate Developers Association (Redas) have been able to take more of the opportunities offered on Batam, such as developing homes, industrial facilities, warehouses and condominiums.

<sup>37</sup>BIDA ; Realisasi Nilai Ekspor Pulau Batam, 1986-Okt 1993.

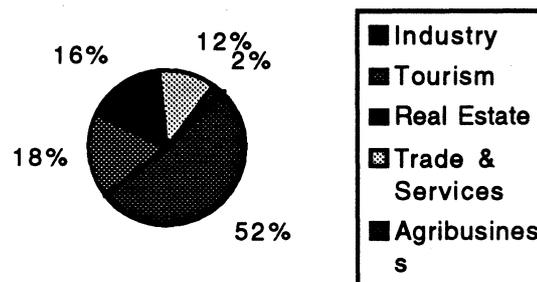
<sup>38</sup>BIDA ; Various sources.

According to BIDA, private investment on Batam in 1994 was targeted at Industry (52.2%), Tourism (17.8%), Real Estate (16.1%), Agribusiness (2.4%), Trade and Services (11.5%).<sup>39</sup> (See Chart 6.1). Quite clearly, the three most important sectors of economic activity on Batam in the 1990s have been industry, tourism and real estate. In particular, the industrial sector, spurred by the growth of BIP, and tourism have experienced strongest growth.

Despite the fact that tourism was virtually unplanned on Batam Island, as a side-product of industrial development and a spin-off from other economic activity, it has become important in its own right, and has been one of the biggest successes on Batam Island.<sup>40</sup> Since 1989, when Batam Island was designated a visa-free entry-point for foreign visitors, Batam has become one of the main points of entry into Indonesia.<sup>41</sup> Tourist numbers increased rapidly from 228,000 visitors in 1988 to 872,000 in 1994.<sup>42</sup> Tourism revenue increased from US\$30.5m. in 1988 to US\$250m. in 1993.<sup>43</sup> (See Table 6.4) Batam is now confirmed as Indonesia's third largest tourist destination, and it appears that it may well take over from Bali as the second most important port of entry into Indonesia after Jakarta.<sup>44</sup>

**Chart 6.1**

**Private Investment on Batam Island, 1994  
(Based on Type of Business)<sup>45</sup>**



<sup>39</sup>BIDA ; Barelang : Development Data up to December 1994 (Jakarta 1995). In 1990, it was Industry (47%), Tourism (19.7%), Real Estate (18.9%), Agribusiness (3.6%), Trade and Services (10.8%). BIDA ; Batam : Development Data up to December 1990 (Jakarta 1991).

<sup>40</sup>Interview with Senior Official of PHRI, 11 August 1994.

<sup>41</sup>The Jakarta Post, 7 February 1989.

<sup>42</sup>BIDA ; Barelang : Development Data up to December 1994 (Jakarta 1995).

<sup>43</sup>BIDA ; Barelang : Development Data up to December 1994 (Jakarta 1995).

<sup>44</sup>A popular acronym for Batam Island is *Banyak Tamu* (Many visitors). Merdeka, 12 October 1991. Suara Pembaruan, 3 February 1994.

<sup>45</sup>BIDA ; Barelang : Development Data up to December 1994 (Jakarta 1995).

While marketing brochures describe Batam as, "a delightful tropical island...an idyllic and natural holiday getaway blessed with kilometres of sandy beaches, fresh seafood, picturesque fishing villages - and duty free shopping", the key factor in the success of tourism on Batam Island has been proximity to Singapore.<sup>46</sup> With over 25 ferry trips daily between Singapore and Batam, Singaporeans account for the majority of tourists.<sup>47</sup> In 1990, Singaporeans made up 71% of all tourist arrivals on Batam Island, and whilst the Singaporean proportion of all tourists has been declining - to 56% of all arrivals in 1993 - their numbers remain significant.<sup>48</sup> It also appears that many of them continue to return to Batam. Whilst only 53% of Singaporean visitors in 1989 were on a repeat visit, this proportion was 84% in 1991.<sup>49</sup>

The majority of all visits to Batam are for holiday and recreation.<sup>50</sup> However, currently the only attractions on Batam Island are golf and beaches.<sup>51</sup> With little to offer by way of cultural, historical or natural attractions, resort developers have created their own attractions. One such resort is Waterfront City, a S\$2 billion project on 2,000 ha., integrating hotels, condominiums, shopping complexes, golf course, marina, leisure and cultural parks, and even a ski run, complete with snow.<sup>52</sup> Another is Nongsa Point Marina, a modern marina resort offering holiday residences, watersport activities and a harbour of destination for the region's recreational boaters and local cruise vessels.<sup>53</sup>

There is a real need to motivate visitors to Batam Island to stay longer. With an average length of stay of 1.8 days, Batam Island falls well behind the average visits of 2.6 days for Jakarta and 4 days for Bali.<sup>54</sup> In fact, of the 680,000 visitors in 1993, the clear

<sup>46</sup>BIDA ; BATAM : Official Guide, p17.

<sup>47</sup>The Sunday Times, 14 August 1994. Singaporeans account for 25% of all tourists visiting Indonesia, the majority of which are visiting Batam. Far Eastern Economic Review, 28 April 1994. The figures for Singaporean visits to Batam compare to 4.4 million visits to Johor in 1994, three quarters of which are estimated to be commuters and not tourists. Straits Times, 17 October 1995. Business World, 7 November 1995. Reuters Textline 7Nov95.

<sup>48</sup>Jakarta Post, 24 February 1995.

<sup>49</sup>Batam Tourist Promotion Board ; Statistical Report : Visitor Arrivals to Batam 1991 (Batam, July 1992).

<sup>50</sup>Of all visitors in 1991, 99% were on holiday, the remainder for business. Singaporeans are predominant among those making business trips to Batam, accounting for 67% of all business visits in 1991. The next largest were Malaysia 8%, Japan and Taiwan 4%. Batam Tourist Promotion Board ; Statistical Report : Visitor Arrivals to Batam 1991 (Batam, July 1992).

<sup>51</sup>There are real questions whether the supply of golf courses will reach saturation since the Growth Triangle area could eventually host one of the largest concentrations of golf courses in the world - in April 1991 there were plans for the equivalent of over 25 eighteen-hole courses. Straits Times, 20 April 1991.

<sup>52</sup>Business Times, 15 April 1992. South China Morning Post, 17 August 1993. Reuters Textline 17Aug93. See also The Jakarta Post, 7 June 1990. The Straits Times, 8 August 1990. For details about the Snowcentre see Business Times, 24 July 1993. The Times, 12 August 1993. Reuters Textline 12Aug93.

<sup>53</sup>Regulatory News Service, 1 July 1992. Reuters Textline 01Jul92. Business Times, 21 February 1994. Nongsa Point Marina has been appointed by the Indonesian government as the sole agent for issuing sailing permits to all sailing and pleasure craft entering the Riau islands for recreational and water sport activities. On January 1st 1994 the Indonesian government relaxed sailing restrictions in the Riau waters to include the waters around Batam, Bintan and several other islands. Previously, a large part of the area was reserved for the use of the Indonesian navy for training exercises. Upon entering and leaving the waters, all vessels must report to the Customs, Immigration and Quarantine Post at Nongsa Point Marina for clearance. The Sunday Times, 5 December 1993.

<sup>54</sup>The Jakarta Post, 4 May 1993.

majority were day trippers.<sup>55</sup> PHRI (Perhimpunan Hotel dan Restoran Indonesia or Indonesian Hotel and Restaurant Association) estimated that approximately only 20% of visitors in 1993 used hotel industry facilities, of which only a tenth used 3-5 star facilities.<sup>56</sup> This resulted in a downturn in the hotel business; an oversupply of rooms led to average hotel occupancy rates at only 50% in 1993. The outcome was a damaging price war amongst Batam hotels in June 1994, with room rate tariffs in star-rated hotels down as much as 40%.<sup>57</sup>

With 46 star-rated hotels offering 12,400 rooms planned by the end of the decade, the hopes of many in the industry rest on the completion of Hang Nadim international airport to boost tourism on Batam.<sup>58</sup> However, the tourist industry on Batam now faces strong competition from neighbouring Bintan Island.<sup>59</sup> How tourism on Batam will fare in what will be a more competitive environment is unclear. PHRI see tourism on Batam eventually developing along similar lines to the Kuta-Sanur-Nusa Dua set-up on

**Table 6.4**

**Tourism on Batam Island, 1985-1994<sup>60</sup>**

Year	Tourist Numbers	Tourist Revenue (US\$million)
1985	60,161	8
1986	84,475	11
1987	145,627	20
1988	227,981	31
1989	359,497	49
1990	579,305	79
1991	608,837	175
1992	648,281	238
1993	680,373	250
1994	871,625	320

<sup>55</sup>Interview with Senior Official of PHRI, 11 August 1994.

<sup>56</sup>Interview with Senior Official of PHRI, 11 August 1994.

<sup>57</sup>Some blamed the price war on the fact that there were too many hotels - in June 1994 there were 22 star-rated hotels offering a total of 3,000 rooms - and others on an abnormally low number of tourist arrivals. According to PHRI, three hotel projects even postponed construction, and many established hotels underwent changes in management. Because of the damaging nature of rate cuts to the hotel industry, PHRI moved to end the price wars by getting hotels to agree to setting the maximum discount at 20% of published price, with the local branch empowering BIDA to impose sanctions on hotels granting discounts of more than 20%. Interview with Senior Official of PHRI, 11 August 1994. *Kompas*, 8 June 1994. *Jakarta Post*, 17 June 1994. *Economic and Business Review Indonesia*, No.114, 18 June 1994. *Kompas*, 29 June 1994. *Straits Times*, 11 July 1994.

<sup>58</sup>As of December 1992, Batam had 16 hotels offering 1,800 rooms. *The Jakarta Post*, 4 May 1993.

<sup>59</sup>This was one of the reasons for the creation of Bareleng, an expansion of the Batam industrial zone - the tourist potential of adjacent islands was considered better than Batam. According to one BIDA official in October 1992, a Taiwanese investor had already booked 200 ha. for a golf-course in the Bareleng area. *Tempo*, 17 October 1992.

<sup>60</sup>BIDA ; Various sources.

Bali, with Nagoya attracting the budget-conscious visitor, Nongsa attracting the business and middle-to-upper range market and neighbouring Bintan island, the exclusive end of the scale.<sup>61</sup> However, this situation still leaves the tourism sector on Batam well-placed to grow in the future, particularly if industrial activities continue to expand.

More than fifty per cent of private investment, and more than two thirds of all foreign investment, on Batam has been poured into industry. The industrial areas in Sekupang, Batu Ampar, Tanjung Uncang and Kabil have received their fair share of this investment, which has been dominated by machinery, basic metals and the oil services industry, and the oil industry equipment remains important to Batam as the third biggest export item.<sup>62</sup> However, since 1989 the majority of new investment in industry has been in electronics, and primarily located in Batamindo Industrial Park.

### **Batamindo Industrial Park**

The keystone of Indonesia-Singapore cooperation on Batam, Batamindo Industrial Park (BIP) dominates the Batam landscape to the extent that it is the most economically and politically important commercial venture on Batam. In fact, the transformation of Batam during the early 1990s has been significantly due to BIP.

BIP is a S\$600 million, 500ha. industrial estate owned by PT Batamindo Investment Corporation (BIC), a joint venture between PT Herwindo Rintis (60%), whose majority shareholders are the Salim and Bimantara Groups, with a smaller stake held by Timmy Habibie, Singapore Technologies Industrial Corporation (30%) and Jurong Environmental Engineering (10%), both Singapore government-owned companies. BIC is the holding company and developer of BIP, investing in logistics, communications and other services to support the park's operations. BIP is managed by a second company, Batamindo Industrial Management Pte Ltd (BIM), a joint venture between PT Herwindo Rintis (50%), Singapore Technologies Industrial Corporation (30%) and Jurong Environmental Engineering (20%). BIM is responsible for planning, design, construction, marketing and leasing.<sup>63</sup>

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<sup>61</sup>Interview with Senior Official of PHRI, 11 August 1994.

<sup>62</sup>For PT Caltex Pacific Indonesia, the largest oil company in Indonesia, Batam is a port of call for its traffic of materials and as a base for suppliers. BIDA ; Business Directory : 22 years Batam Industrial Development Authority , (November 1993), p36.

<sup>63</sup>The Straits Times, 12 January 1990. The Jakarta Post, 12 January 1990. The total figure for the project, originally S\$400 million, has been re-estimated to run to S\$550 million (Business Times, 24 October 1992), and again to S\$600 million because of additional investment in factories and utilities (Business Times, 14 September 1993).

Essentially the partnership involves a division of labour, using the individual and overall strengths of the three partners - JEE, a wholly-owned subsidiary of Jurong Town Corporation (JTC), brought with it skills and experience in developing industrial estates; STIC, a technology-related company with subsidiaries in electronics, information technology, precision engineering and industrial services, brought with it a strong capital base and construction knowledge; the Salim Group provides capital, land and logistics.<sup>64</sup>

A self-sufficient, self-contained and integrated industrial park, BIP offers one-stop service and facilities - accommodation, recreational facilities, transport and security services, immigration, recruitment, administrative support, estate management, factories, power supply, water supply, telecommunications facilities, commercial facilities, polyclinic, banking, training, restaurants, market, church, mosque, post office, social and recreational facilities - all of which are aimed at shielding investors from infrastructure inadequacies and bureaucratic inefficiencies on Batam Island.<sup>65</sup> The aim is to offer a Singapore-type environment with cheap labour and land costs in order to make investors feel at home; to feel just as if they would if they were doing business in Singapore.

On 30 April 1990, three months after the signing of the joint-venture agreement, Sumitomo Wiring Systems Batam Indonesia signed up as the first tenant in what was seen as a prestigious catch and powerful influence in persuading others to follow. Maw Bow Tan, Singapore Minister for Trade and Industry, remarked at the time that,

Attracting a major Japanese MNC in such a short time augurs well.<sup>66</sup>

PT Sumitomo Wiring Systems Batam Indonesia first became interested in investing in BIP following a direct approach from the Singapore government in December 1989. According to the Managing Director of Sumitomo, advice and support from the Singapore government was the key factor in its decision to invest in 1990.<sup>67</sup> Sumitomo has given several further reasons for taking the decision to invest in BIP, a decision which took less than three months. These included : 100% ownership, bonded zone status because inputs from Japan, a desire to move production from Japan because of labour constraints with the offer of cheaper and more available manpower, a desire to get a manufacturing foothold in the ASEAN area, proximity to Singapore, strong

<sup>64</sup>Interview with Barry Desker, 23 September 1994. *Batamindo Industrial Management ; Batam Industrial Park : International Manufacturing Advantage*. *The Straits Times*, 12 January 1990. *The Jakarta Post*, 12 January 1990.

<sup>65</sup>*Batamindo Industrial Management ; Batam Industrial Park : International Manufacturing Advantage*. The set-up is a modified version of JTC's operations in Singapore, where it manages 30 industrial estates which account for 76% of all manufacturing in Singapore and over 6,000 companies. *Singapore : Facts and Figures 1994* (Ministry of Information, 1994), pp 46-47.

<sup>66</sup>*Asiaweek*, 29 June 1990.

<sup>67</sup>*The Asian Wall Street Journal*, 5 December 1990.

commitment by both the Indonesian and Singaporean governments, confidence in the management, infrastructure, utilities and assistance offered by BIP, and an agreement by the Japanese government to allow workers to be trained for six months in Japan.<sup>68</sup>

Sumitomo is typical of most BIP tenants, who cite similar reasons for their investment decision. Firstly, Batam Island offered abundant and low cost labour, bonded zone status, 100% foreign ownership and proximity to Singapore and its modern commercial, banking and transport facilities. Secondly, BIP offered the provision of infrastructure and utilities, and shelter from the Indonesian bureaucracy offered by a 'one-stop service'. Thirdly, BIP was strongly supported by both the Singaporean and Indonesian governments.<sup>69</sup>

For most tenants it was strong government support for the project which was the decisive factor. PT Astra Microtronics, was strongly encouraged by EDB Chief, Philip Yeo, as well as Habibie.<sup>70</sup> PT Bowater cited government endorsement as a key factor in its decision to invest.<sup>71</sup> PT AT&T Consumer Products Indonesia moved to Batam Island prompted by, among other things, the strong commitment shown by the EDB, BIP and the Singaporean and Indonesian governments.<sup>72</sup> CIBA Vision decided to locate to BIP because of assurances of consistency of Indonesian government policy, political stability and Singapore government support.<sup>73</sup>

From its inception in January 1990, BIP has grown at a bristling pace. By the end of 1990, total cumulative foreign investment committed in BIP amounted to US\$686 million, involving 48 projects. Singapore companies were the largest investors with commitments of US\$344 million, followed by the United States with US\$165 million

<sup>68</sup>Interview with Sumitomo Executives, 4 October 1994. Lee Tsao Yuan ; "Growth Triangles in ASEAN" PTIO Economic Brief, no.10 (June 1992), pp 16-17. Batamindo Industrial Management ; Batam Industrial Park : International Manufacturing Advantage.

<sup>69</sup>Various Interviews with tenants, 1994. More recent investors are reportedly less concerned about 100% foreign ownership and tend to be more interested in such factors as proximity to Singapore and GSP privileges for USA and EC. Interview with BIP Executive, John Sulistiawan, 14 September 1994.

<sup>70</sup>Interview with Astra Executive, 4 October 1994.

<sup>71</sup>Batamindo Industrial Management ; Batam Industrial Park : International Manufacturing Advantage. Not only has BIP been supported by the Singapore government in terms of marketing, the Singapore government has provided special facilities for the park operators. BIP received the first ever loan denominated in Singapore-dollars for a foreign-based project, and offshore banks lending to the park have been given an exemption from the offshore lending limit by the Monetary Authority of Singapore. PT Batamindo Investment Corporation borrowed S\$125 million in March 1992, S\$120 million (S\$70m for 5-year loan & S\$50m 9-month bridging loan) in September 1992, S\$100million (S\$50m for 5-year loan & S\$50m 9-month bridging loan) in September 1993, and S\$160million in February 1994 which was expected to be its last because it was soon to sell factories to its tenants, revenue which would be used to finance further capital needs. Schroder International Merchant Bankers Ltd arranged the loans. Business Times, 12 September 1992. Indonesia Development News, Vol.15 No.3 (Spring 1992). Business Times, 23 March 1993. Business Times, 14 September 1993. Reuters Textline 14Sep93. Business Times, 8 February 1994.

<sup>72</sup>The provision of a one-stop service and proximity to Singapore were also important. Batamindo Industrial Management ; Batam Industrial Park : International Manufacturing Advantage.

<sup>73</sup>Other factors included proximity to Singapore, GSP privileges, and familiarity with the area because of existing operations in Singapore, Malaysia and Indonesia. Interview with CIBA Vision Executive, 4 October 1994.

and Hong Kong US\$111 million.<sup>74</sup> PT Thomson became the first tenant to begin operation on 28 January 1991, and by the end of that year all 23 factories in Phase I of BIP were completed, occupied and their tenants operating.<sup>75</sup>

BIP was officially inaugurated in April 1992 by President Soeharto and Singapore Prime Minister Goh Chok Tong, and has continued to grow in size and stature.<sup>76</sup> By October 1992 there were 31 tenants operating in the park.<sup>77</sup> By July 1993 they numbered 38, with a realised investment of US\$200m. employing around 16,000 workers, and exporting electronic products worth US\$400 million.<sup>78</sup> By the end of 1994, BIP had over 60 tenants with US\$250 million of investments, employing 35,000 workers and exporting US\$700 million worth of products.<sup>79</sup> The make-up of tenants in BIP mirrors the situation on Batam. Of the 62 tenants signed in mid-94, - 25 were Japanese, 17 Singaporean, seven USA, three German, two French, and one each from the Netherlands, Italy, UK, Switzerland, Korea, Taiwan, Malaysia and Indonesia.

It is generally considered that BIP has been the only successful industrial park on Batam because there is Singaporean content in both ownership and management, and because it is the only industrial estate marketed in Singapore. This is despite it having the highest land and factory rents of all industrial estates in Indonesia.<sup>80</sup> In addition to Singaporean participation and management, tenants believe that the success of BIP is due to the Salim Group's political connections and ability to move government machinery, considerably lowering 'unofficial costs' for tenants.<sup>81</sup> Whilst BIP initially had to eliminate uncertainties and provide confidence to prospective investors, demonstration effect and its record now sells the park.<sup>82</sup> The BIP model of cooperation has been extended to other projects in the Riau Islands and has become a model for other industrial parks.

<sup>74</sup>Gary Rodan ; "Reconstructing Divisions of Labour : Singapore's new regional emphasis" in R.Higgott, R.Leaver & J.Ravenhill (eds) Pacific Economic Relations in the 1990s : Cooperation or Conflict? (Allen & Unwin, Sydney 1993), p242.

<sup>75</sup>BIP News, October 1991. Lee Tsao Yuan ; "Growth Triangles in ASEAN", PTTO Economic Brief, no.10 (June 1992) , p10.

<sup>76</sup>Batamindo Industrial Management ; Batam Industrial Park : International Manufacturing Advantage.

<sup>77</sup>Business Times, 24 October 1992.

<sup>78</sup>Business Times, 30 January 1993. Business Times, 16 July 1993. The Straits Times, 28 September 1993. The Straits Times, 30 August 1993.

<sup>79</sup>Media Indonesia, 13 October 1995. South China Morning Post, 17 August 1995.

<sup>80</sup>Indonesian Commercial Newsletter, 25 July 1995.

<sup>81</sup>Various interviews with tenants, 1994.

<sup>82</sup>Interview with BIP Executive, Patrick Lee, 28 September 1994. In a further boost to marketing, BIP was awarded ISO 9002 certification in 1995, the first and only industrial park in the Asia-Pacific to be awarded. The award was given for its service - how it helps MNCs to settle in, for maintenance, security and other facilities. Business Times, 27 October 1995. The BIP model is now being replicated by the Salim Group and its Batamindo partners in Fujian Province, China. Tempo, 12 December 1992.

BIP is a strong lobby vis-a-vis the Singapore and Indonesian governments, and it does carry clout - the Executive-Director of the Board of Directors is Salim Group Executive, Anthony Salim, the President-Commissioner of the Board of Commissioners is Soeharto's son, Bambang Trihatmojo, and its Directors included the EDB's Philip Yeo, and brother of BIDA Chairman, Timmy Habibie.<sup>83</sup> BIC and BIM have maintained a continual lobby direct to the Indonesian Ambassador in Singapore, and various Indonesian Ministers, particularly those of Manpower, Housing and Education.<sup>84</sup>

If or when there are difficulties, the EDB becomes the vehicle for sorting out problems. In fact, the EDB has essentially acted as a public relations firm, coordinator, facilitator and troubleshooter for BIP.<sup>85</sup> BIM and the EDB meet on a regular two-monthly basis, and depending on the nature of any problem the EDB approaches the Indonesian minister through the Indonesian Embassy in Singapore or through a Singaporean Minister. At the same time, EDB Chairman Philip Yeo and Habibie maintain contact and monitor developments in BIP.<sup>86</sup> The lobby is generally on behalf of BIP tenants, but at the same time out of self-interest.

Like BIP's operators, tenants are concerned with changes to Indonesian government regulations, in particular those pertaining to wages and taxation. For instance, further wage increases on Batam could adversely affect the operations of tenants, and at the same time threaten the operation and competitiveness of BIP. Most want changes to regulations, such as those governing access to the Indonesian domestic market, and are concerned with social aspects of development on Batam.<sup>87</sup>

BIC and BIM have lobbied the Indonesian government on several policy issues. These have included : land lease periods, minimum wage increases, allowing 35% of production to be sold to the Indonesian domestic market, tax holidays, improved transportation between Batam and Jakarta, the removal of sales tax on goods coming from within Indonesia, and the provision of low-cost housing.<sup>88</sup> There have been successes - the Smart Card, an electronic passport, came about after BIM, under pressure from MNCs, approached the EDB which in turn elicited support from the Indonesian Embassy in Singapore which went to the Indonesian Ministries concerned - and failures - BIC failed in its attempt to effect changes to immigration procedures for those visiting or inspecting from Singapore having to pay a S\$13 fiscal.<sup>89</sup>

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<sup>83</sup>Interview with BIP Executive, October 1994.

<sup>84</sup>Interview with BIP Executive, September 1994.

<sup>85</sup>Economic Development Board ; *Yearbook 1992/1993* (Singapore National Press, 1993).

<sup>86</sup>Interview with BIP Executive, G.Arumugam, 19 October 1994.

<sup>87</sup>Various interviews with tenants, 1994.

<sup>88</sup>Interview with BIP Executive, John Sulistiawan, 14 September 1994.

<sup>89</sup>Interview with G.Arumugam, 19 October 1994.

The most significant example of BIP's influence vis-a-vis the Indonesian government concerned the October 1993 wage rise. In mid-1993, the Indonesian government announced an increase in the daily minimum wage from Rp 5,500 to Rp 6,750, beginning October.<sup>90</sup> The Indonesian government, however, had difficulty convincing investors of the need to increase the minimum wage. The operators of BIP, sympathetic to their tenants who already provided labour packages in excess of the minimum wage, and desirous of keeping operating costs down in order to retain competitiveness, sought to have the decision revoked, or at the very least stalled. BIC approached the EDB who, through the Indonesian Embassy, put the case to the relevant Indonesian ministries.<sup>91</sup> As a result of the approach the wage rise was delayed by six months to April 1994, and the package provided to workers which included housing and meals was recognised as equivalent to a wage.<sup>92</sup>

Tenants also have leverage within BIP, through the 'vocal group' centred around a group of older tenants which meets with park management every 2-3 months to express any concerns with competitiveness and cost-saving. If an issue cannot be resolved, the vocal group approaches the EDB directly.<sup>93</sup> Tenants appear to be in close contact with one another on issues that concern them or are of mutual benefit. The vocal group has appealed to park management to reduce costs of utilities such as electricity and water supply; there are no problems with telecommunications. Tenants have also expressed concern about charges for dormitory accommodation, as well as the labour packages offered by recruiter Tunas Karya. Some tenants are of the opinion that lower charges are being forsaken for the benefit of quick profits and return on investment for BIP's operators, and that management should be looking at longer term objectives rather than short-term gains - the criticism is that the park's operators have a 3-4 year short-term objective not long-term - and in that way some of the more footloose industries could make a longer commitment, and a long-term partnership.<sup>94</sup>

To allay fears over rising costs, BIP management has attempted to cut operating costs. In October 1992, freight rates were cut by between 14% and 24%, and again in July 1993 by 10%.<sup>95</sup> In addition, factory rents were frozen in October 1992 for a period of three years.<sup>96</sup> Cuts in utilities charges have been promised in phases as more tenants

<sup>90</sup>The Jakarta Post, 12 June 1993.

<sup>91</sup>Various interviews with BIP Executives, September-October 1994.

<sup>92</sup>Sunday Times, 5 December 1993.

<sup>93</sup>Interview with G.Arumugam, 19 October 1994.

<sup>94</sup>Various interviews with tenants, 1994. One company has closed its operations, but not because of problems with BIP - Typewriter manufacturer, Smith Corona, closed both its Batam and Singapore plants because of decreased demand for typewriters worldwide. Business Times, 12 May 1995.

<sup>95</sup>Business Times, 16 July 1993. Reuters Textline 16Jul93.

<sup>96</sup>Business Times, 24 October 1992. Reuters Textline 12Oct92. Problems with labour recruiter, Tunas Karya, which was being poorly managed, have also been addressed. Whilst BIC wanted to carry-out labour recruitment and training itself, because it is a negative list area, a technical agreement was set up with the Salim Group whereby the

sign on - electricity charges were reduced by 6.2% in July 1994.<sup>97</sup> Essentially, savings are passed on to tenants as better efficiency and economies of scale are reached.

BIP's overall position and role in Batam Island's development is substantial. In fact, the transformation of Batam during the 1990s has been largely due to BIP. With an average 40% growth in tenants between 1991-1994, growth has outstripped that of Batam as a whole.<sup>98</sup> By 1994, just over three years after the first tenant began operations, BIP tenants employed around 50% of the total formal workforce on Batam Island, and around 70% of those involved in the industrial sector, in addition to providing other direct and indirect employment, such as in construction and services, and in the informal sector outside the park. Between them, the operators of BIP and BIP tenants had invested around US\$600 million, accounting for an eighth of total private investment on Batam. In addition, BIP tenants provided over 50% of Batam Island's total export value - US\$600m. of US\$1b in 1994.<sup>99</sup> It is this economic value, combined with good political connections, which gives BIP considerable political clout.

### **Domestic Investment**

Domestic business participation in the development of Batam Island is important to ensure that Indonesia benefits from economic activity. As with foreign investment, domestic investment began to significantly increase after 1989. By the end of 1994, private Indonesian companies had invested US\$2.3 billion on Batam Island.<sup>100</sup> What stands out from both the figures, and particular projects on Batam, is that the majority of domestic private investment is limited to a number of large Jakarta-based conglomerates. This is not to deny the importance of small and medium-sized firms, for they are an active and important component of economic growth on Batam, but relative to the conglomerates their importance is limited. The activities of business groups with strong links to powerful politicians is common in corporate Indonesia. It is no less so on Batam Island, where well-connected pribumi and non-pribumi business's dominate.

The Salim Group - Indonesia's largest conglomerate with estimated sales of US\$11 billion and assets of US\$18 billion in 1994<sup>101</sup> - was the first Indonesian conglomerate to

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name and company remain intact, but jointly owned by BIC and Tunas Karya, and restructuring and management changes have taken place. Interview with G.Arumugam, 19 October 1994.

<sup>97</sup>BIP News, September/October 1994.

<sup>98</sup>Business Times, 10 November 1995.

<sup>99</sup>This figure is based on details provided by investors in their BKPM submissions, and the actual value could be higher or lower.

<sup>100</sup>BIDA ; Barelang : Development Data up to December 1994 (Jakarta 1995).

<sup>101</sup>Australian Financial Review, 2 January 1996. In 1990, it had a turnover of US\$8 billion, accounting for about 5% of Indonesia's GDP. Far Eastern Economic Review, 14 March 1991, p46.

invest on Batam in a big way, and has remained heavily committed there. Together with the Salim Group, other well-connected Indonesian business groups, including relatives of both former and serving senior Indonesian ministers, are predominant among domestic investors. Batam could well be one of the most important centres of the Liem-Soeharto family business empire. The Bimantara Group, owned by the President's son Bambang Trihatmojo, is the second biggest domestic investor on Batam, in terms of number and size of projects. The President's foster-brother, Sudwikatmono, is also a major investor.<sup>102</sup>

Other groups economically or politically connected to the Soeharto family include Mohammed 'Bob' Hasan, Ciputra, Hendra Rahardja and Ibrahim Risyad. Individual investors include Harry Murdani, the brother of former Minister for Defence and Security, Benny Murdani. Other no less significant investors include the Sutowo family, and the Citra Group. ABRI *yayasans* also have a share in developments, in particular the Yayasan Angkatan Laut (Naval Welfare Foundation) and the Yayasan Asi Upaya (Air Force Officer's Welfare Foundation). (See Table 6.5).

Recently, attention and debate has begun to focus on the growing involvement of BIDA Chairman B. J. Habibie's family in business. Whilst their involvement in business on Batam raises conflict-of-interest issues, the attitude of many government officials is that family members have a right to venture into the business world. The Habibie family are not only prominent in business on Batam Island, family members also dominate social activities.

Habibie's younger brother, Suyatim Abdulrachman (Timmy), is a major pribumi investor on Batam Island. His holding company, PT Timsco Indonesia, of which he controls 55%, includes other Habibie family members as shareholders - Habibie's son, Thareq (25%), and wife of brother, Fanny, Meike Miriam Habibie (20%). On Batam, Timmy often operates in partnership with the Salim and Bimantara Groups - PT Mitrajaya Wiraniaga, is a joint-venture between Timsco, Salim and Bimantara; PT Bimatima Dharma Perkasa, is a joint venture between Timsco and Bimantara Citra; and PT Saltim, is a joint-venture between Timsco and Salim.

Other family members are also involved in business on Batam Island. A major investment vehicle is PT Trimitra Upayatama, owned by Habibie's younger sister Sri Rahayu Fatima (Yayuk), and Habibie's sons Thareq and Ilham. Ilham and Thareq's company, PT Repindo Panca, has begun business, and both hold 10% shares in PT Herwindo Rintas, which partners together Salim, Bimantara and Timmy Habibie (10%).

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<sup>102</sup> He admitted having invested more than US\$150 million on Batam in hotels, real estate and theatres by mid-1990. *Warta Ekonomi*, 11 June 1990.

In addition, Habibie's older brother, Satoto Moh. (Toto) Duhri, as well as Agus Alwi, either Habibie's other older brother or nephew, also have business interests.

Habibie's younger sister, Sri Rejeki, is an important business, political and social figure on Batam Island. She is currently Chairperson of the Yayasan Keluarga Batam (Batam Family Foundation)<sup>103</sup>, Chairperson of women's organisation, Darmawarti<sup>104</sup>, and Chairperson of FKKS Batam (Batam Social Welfare and Resource Coordinating Council).<sup>105</sup> The Yayasan Keluarga Batam is said to practically monopolise the construction of hospitals and schools on Batam, whilst FKKS, a government-sponsored NGO runs social programs and controls the contracts for them.

Husband of Sri Rejeki, and BIDA Chief Executive from 1978-1988, Maj-Gen (ret) Soedarsono Dharmasoewito is involved in a myriad of business and social activities. When BIDA Chief Executive, Soedarsono was virtually a Governor in his own right, running a military-style rather than a civil administration. Despite being replaced because of several errors of judgement - among other things, he gave a car to the local Camat as goodwill<sup>106</sup> - it is said that there is little way of wresting power from him without approaching the President directly and incurring the wrath of Habibie.<sup>107</sup> Now adviser to the BIDA Chairman, Soedarsono is said to still wield control over certain contracts and licenses.<sup>108</sup> On the social front, Soedarsono is Chairman of the Batam Chapter of Kadin (Indonesian Chamber of Commerce and Industry), Chairman of Red Cross Batam and a senior member of the ABRI community.<sup>109</sup> On the business front, Soedarsono is Director of a number of companies, with activities ranging from industrial parks to tourist resorts.

There are indications that what may well emerge is a regionalisation of the Indonesian oligarchy, using Johor-Batam-Singapore as the main hub. Through the Muslim-Malay connections of FOKUS (Forum Komunikasi Usaha Serantau) - a forum bringing together Habibie-led ICMI (Association of Indonesian Muslim Intellectuals) and Muslim-Malay associations in Singapore and Malaysia - business links are being built with the Malay bureaucrat/aristocrat business families in Singapore, Johor and Kuala Lumpur.<sup>110</sup>

<sup>103</sup> *Antara*, 26 October 1983.

<sup>104</sup> *Suara Karya*, 7 November 1983.

<sup>105</sup> *Straits Times*, 2 April 1994.

<sup>106</sup> Interview with former Minister for Internal Affairs, Rudini, 9 August 1994.

<sup>107</sup> Interview with former Indonesian diplomat, 21 November 1994.

<sup>108</sup> Interview with former Indonesian diplomat, 21 November 1994.

<sup>109</sup> *The Sunday Times*, 5 December 1993. *Kompas*, 14 May 1994.

<sup>110</sup> These include the Association of Muslim Professionals of Singapore, and Pengembang Keuangan Ekonomi Negeri Johor (PKENJ) of Malaysia. For details see *Business Times*, 6 August 1992. See also *Jakarta Post*, 5 September 1994. *Republika*, 5 September 1994. *Business Times*, 6 September 1994.

**Table 6.5**

**Major Domestic Investors on Batam Island**

Habibie Family	Suyatim Abdulrachman "Timmy" Habibie	PT Timsco Indonesia (55%)	PT Tamsa Rexina Tubulars (35%) <sup>111</sup>	Oil Service Industry
		PT Timsco Indonesia	PT Indoterminal Batamindo (25%) <sup>112</sup>	Palm Oil Terminal
		PT Timsco Indonesia	(?) <sup>113</sup>	Asiaport Developer
		PT Timsco Indonesia	PT Bimatima Dharma Perkasa (50%)	
		PT Herwindo Rintas (10%)	PT Batamindo Investment Corporation (60%) <sup>114</sup>	Batamindo Industrial Park
		PT Herwindo Rintas	PT Batamindo Investment Corporation (60%) <sup>115</sup>	PT Batam Bintang Telekomunikasi (95%)
		PT Herwindo Rintas	PT Batamindo Industrial Management (50%) <sup>116</sup>	Batamindo Industrial Park
		PT Herwindo Rintas	PT Batamindo Executive Village (20%) <sup>117</sup>	Batamindo Executive Village (Recreational Facilities)

<sup>111</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Indonesia Development News Vol.13 No.4 (March/April 1990).

<sup>112</sup> Indonesia Development News , Vol.13 No.4 (March/April 1990) , p8. Business Times, 17 September 1992. Reuters Textline 17Sep92.

<sup>113</sup> Jakarta Post, 12 April 1995.

<sup>114</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Tempo, 9 February 1991.

<sup>115</sup> Jakarta Post, 18 June 1996.

<sup>116</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Tempo, 9 February 1991.

<sup>117</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Tempo, 9 February 1991. Bisnis Indonesia, 30 May 1992.

	PT Herwindo Rintas	PT Nongsapura Wahana-bahari (20%)	Tourism
		PT Engineerin Testing and Research Service (100%)	Services
	Timmy Habibie	PT Sinar Culindo Perkasa (5%) <sup>118</sup>	Agro-business on Bulan Island
		PT Cendana Buanajaya (60%)	Construction
		PT Waringin Dutagraha (60%)	Construction
	PT Saltim	PT Batam Aircraft Maintenance (10%) <sup>119</sup>	Aircraft Maintenance Facility
	PT Mitrajaya Wiraniaga	PT Sumitomo Wiring System Batam (5%) <sup>120</sup>	Electronics Industry
		PT Baruna Adiwisesa Perkasa (100%)	Transportation
		PT Bahtera Yasa Cakrawala (100%)	Transportation
Thareq Kemal & Ilham Akbar Habibie	PT Repindo Panca <sup>121</sup>		
	PT Herwindo Rintas (20%)	PT Batamindo Investment Corporation (60%) <sup>122</sup>	Batamindo Industrial Park

<sup>118</sup> Tempo, 9 February 1991.

<sup>119</sup> Straits Times, 3 September 1994.

<sup>120</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>121</sup> Business Times, 8 August 1995.

<sup>122</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Tempo, 9 February 1991.

	PT Herwindo Rintas	PT Batamindo Investment Corporation (60%) <sup>123</sup>	PT Batam Bintang Telekomunikasi (95%)
	PT Herwindo Rintas	PT Batamindo Industrial Management (50%) <sup>124</sup>	Batamindo Industrial Park
	PT Herwindo Rintas	PT Batamindo Executive Village (20%) <sup>125</sup>	Batamindo Executive Village (Recreational Facilities)
	PT Herwindo Rintas	PT Nongsapura Wahana-bahari (20%)	Tourism
Sri Rahayu Fatima	PT Trimitra Upayatama	PT Kosaido Tamarin Santana (25%) <sup>126</sup>	Golf Course
	PT Trimitra Upayatama	PT Nongsa Point Marina (17%) <sup>127</sup>	Recreational Facilities
Agus Alwi Habibie	PT Tri Sukses Jembertama	PT Ohmon Internusa Development (30%) <sup>128</sup>	Recreational Facilities
Satoto Habibie		PT Habindo Satria Perkasa (100%)	Oil Service Industry
Maj-Gen (ret) Soedarsono	President-Director	PT Persero Batam <sup>129</sup>	Bonded Warehouse Operator
Dharmasoewito	President-Director	PT Spinindo Mitrada Batam <sup>130</sup>	Industrial Estate

<sup>123</sup> Jakarta Post, 18 June 1996.

<sup>124</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Tempo, 9 February 1991.

<sup>125</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Tempo, 9 February 1991. Bisnis Indonesia, 30 May 1992.

<sup>126</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Business Times, 22 December 1992. Pelita, 30 June 1992.

<sup>127</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Pelita, 30 June 1992.

<sup>128</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>129</sup> Richard I.Mann ; BATAM: Step by step guide for investors. (Gateway Books, Toronto 1990), p 110.

<sup>130</sup> Bisnis Indonesia, 5 October 1990.

	Director	PT Citra Lingkungan Lestari PT Indotri Mandiri Sakti Batam Island Country Club	Environmental Impact Analyses Harbour Construction Tourist Resort
Salim Group	Salim Group	PT Indoterminal Batamindo (50%) <sup>131</sup>	Palm Oil Terminal
	Salim Group	PT Salim Oil Refinery (100%) <sup>132</sup>	
	Salim Group	PT Batamas Megah (100%) <sup>133</sup>	Oleochemicals Plant
	Anthony & Andree Salim	PT Indopeb Alam Lestari (50%) <sup>134</sup>	Environmental Sanitation
	PT Herwindo Rintas	PT Batamindo Investment Corporation (60%) <sup>135</sup>	Batamindo Industrial Park
	PT Herwindo Rintas	PT Batamindo Investment Corporation (60%) <sup>136</sup>	PT Batam Bintang Telekomunikasi (95%)
	PT Herwindo Rintas	PT Batamindo Industrial Management (50%)	Batamindo Industrial Park
	PT Herwindo Rintas	PT Batamindo Executive Village (20%) <sup>137</sup>	Batamindo Executive Village (Recreational Facilities)

<sup>131</sup> The terminal, initially designed to handle only palm oil, has been modified to handle other edible oils and their derivatives, and can handle up to 3 million tonnes of liquid cargo a year. *Indonesia Development News*, Vol.13 No.4 (March/April 1990), p8. *Business Times*, 17 September 1992. Reuters Textline 17Sep92.

<sup>132</sup> BIDA ; *Daftar Perusahaan PMDN di Pulau Batam sampai dengan 12/11/1993*.

<sup>133</sup> *Business Times*, 17 September 1992. *Jakarta Post*, 25 September 1992.

<sup>134</sup> BIDA ; *Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993*. *Media Indonesia*, 2 August 1991.

<sup>135</sup> BIDA ; *Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993*.

<sup>136</sup> *Jakarta Post*, 18 June 1996.

<sup>137</sup> 30% owned by BIC and 60% owned by Salim. BIDA ; *Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993*. *Bisnis Indonesia*, 30 May 1992.

	PT Waringin Kencana	PT Bumi Shangri-la Jaya (?%) <sup>138</sup>	Residential Developer
	PT Mitrajaya Wiraniaga	PT Sumitomo Wiring System Batam (5%) <sup>139</sup>	Electronics Industry
	KMP Pte Ltd	KMP Coastal Oil (50%) <sup>140</sup>	Bunkering Services
Bimantara Group	PT Bimantara Citra	PT Indoterminal Batamindo (25%) <sup>141</sup>	Palm Oil Terminal
	PT Bimantara Citra	PT Bimatima Dharma Perkasa (?%)	
	PT Bimantara Citra	PT Toyo Kanetsu Indonesia (51%) <sup>142</sup>	Oil Service Industry
	PT Mitrajaya Wiraniaga	PT Sumitomo Wiring System Batam (5%) <sup>143</sup>	Electronics Industry
	PT Herwindo Rintas	PT Batamindo Executive Village (20%) <sup>144</sup>	Recreational Facilities
	PT Herwindo Rintas	PT Batamindo Industrial Management (50%)	Batamindo Industrial Park
	PT Herwindo Rintas	PT Batamindo Investment Corporation (60%) <sup>145</sup>	Batamindo Industrial Park

<sup>138</sup> Bisnis Indonesia, 7 July 1990. Straits Times, 8 August 1990.

<sup>139</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>140</sup> Business Times, 17 September 1992.

<sup>141</sup> Indonesia Development News, Vol.13 No.4 (March/April 1990), p8. Business Times, 17 September 1992. Reuters Textline 17Sep92.

<sup>142</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>143</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>144</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Bisnis Indonesia, 30/05/1992.

<sup>145</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

	PT Herwindo Rintas	PT Batamindo Investment Corporation (60%) <sup>146</sup>	PT Batam Bintang Telekomunikasi (95%)
	PT Kresna Tara	j/v with Brighton Limited (?) <sup>147</sup>	Power Plant
Sudwikatmono	PT Dwisetia Indolestari	PT Amcol Dwi Lestari (35%) <sup>148</sup>	Golf Course/Hotel
	PT Nongsa Permai Indonesia	PT Pan Island Developments (40%) <sup>149</sup>	Golf Course/Hotel
	PT Putri Selaka Kencana	PT Tanjung Uncang Industrial Estate <sup>150</sup>	Industrial Estate
	PT Putri Selaka Kencana	PT Kabil Industrial Estate <sup>151</sup>	Industrial Estate
Hendra Rahardja	PT Igata Harapan	Tanjung Country Club (?) <sup>152</sup>	Golf Course/Hotel
Ciputra	Metropolitan Development Group	PT Bumi Shangri-la Jaya (?) <sup>153</sup>	Residential Property
Sutowo	Adiguna Sutowo	PT Steelfab Santana (30%) <sup>154</sup>	Oil Service Industry

<sup>146</sup> Jakarta Post, 18 June 1996.

<sup>147</sup> Jakarta Post, 22 December 1995.

<sup>148</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Business Times, 19 November 1992. Business Times, 30 April 1993. Business Times, 3 July 1993. Republika, 6 September 1993.

<sup>149</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Straits Times, 16 February 1988. Angkatan Bersenjata, 3 December 1990. Far Eastern Economic Review, 30 November 1989. Business Times, 12 November 1992.

<sup>150</sup> BIDA ; Daftar Perusahaan PMDN di Pulau Batam sampai dengan 12/11/1993. OPDIPB ; Data Kemajuan Pembangunan Daerah Industri Pulau Batam sampai dengan Bulan April 1991 (Jakarta 1991).

<sup>151</sup> BIDA ; Daftar Perusahaan PMDN di Pulau Batam sampai dengan 12/11/1993. OPDIPB ; Data Kemajuan Pembangunan Daerah Industri Pulau Batam sampai dengan Bulan April 1991 (Jakarta 1991).

<sup>152</sup> Business Times, 15 April 1992. Suara Karya, 24 February 1993.

<sup>153</sup> Bisnis Indonesia, 7 July 1990. Straits Times, 8 August 1990.

<sup>154</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

	PT Nugra Santana	PT Kosaido Tamarin Santana (25%) <sup>155</sup>	Golf Course
Astra	PT Astra Graphia	PT Astra Microtronics Technology (25%) <sup>156</sup>	Electronics Components
Bob Hasan	PT Rawayan Indah	PT McDermott Indonesia (?) <sup>157</sup>	Oil Service Industry
Mulia Group (Eka Candranegara)	Eka Candranegara	PT Intan Fajar (?) <sup>158</sup>	Golf Course/Hotel Resort
	Mulia Group	PT Jaya Shipyard (5%) <sup>159</sup>	Ship Repair
	PT Mutu Mulia	PT Mutu Mulia Smith Indonesia (20%) <sup>160</sup>	Oil Service
Ibrahim Risyad		PT Intan Fajar (?) <sup>161</sup>	Golf Course/Hotel Resort
Citra Group	PT Citra Tubindo <sup>162</sup>		Steel Pipe
	PT Citra Tubindo	PT Citra Enetek <sup>163</sup> Kabil Crude Palm Oil Terminal <sup>164</sup>	Recycling Service

<sup>155</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993. Business Times, 22 December 1992. Pelita 30 June 1992. PT Kosaido Tamarin Santana ; Tamarin Santana Golf Club.

<sup>156</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>157</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>158</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>159</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>160</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>161</sup> Business Times, 18 May 1993. Jakarta Post, 11 August 1993. Republika, 30 March 1994. PT Intan Fajar ; Tering Bay Resort.

<sup>162</sup> Jakarta Post, 19 June 1991. Business Times, 15 April 1992.

<sup>163</sup> Prompt Indonesian Investment Highlights, 5 June 1996. Reuters Textline 5Jun96.

<sup>164</sup> Asiaweek, 31 July 1992.

	PT Citra Agramasinti Nusantara	PT Kosaido Tamarin Santana (25%) <sup>165</sup>	Golf Course
	Pt Citra Agramasinti Nusantara	PT Kabil Indonusa Estate (75%) <sup>166</sup>	Industrial Estate
	PT Citra Agramasinti Nusantara	PT Citramas Grant (20%) <sup>167</sup>	Steel Pipe
	PT Tirta Utama Riani Indah	PT Nongsa Point Marina (17%) <sup>168</sup>	Recreation
	PT Tirta Utama Riani Indah	PT Taman Nongsa Indah Village (20%) <sup>169</sup>	Recreation
	PT Tirta Utama Riani Indah	Turi Beach Hotel (100%) <sup>170</sup>	Recreation
The Soehardjo	PT Karya Sinar Batam	PT Marina Bay Development (50%) <sup>171</sup>	Housing Developer
	PT Karya Sinar Batam	PT Paradise Bay Golf Resort (20%) <sup>172</sup>	Recreation Facilities
	PT Karya Adijaya Ekatama	PT Seafront Industrial City (10%) <sup>173</sup>	Industrial Estate

<sup>165</sup> BIDA ; Daftar Perusahaan PMDN di Pulau Batam sampai dengan 12/11/1993.

<sup>166</sup> BIDA ; Daftar Perusahaan PMDN di Pulau Batam sampai dengan 12/11/1993.

<sup>167</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>168</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>169</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>170</sup> BIDA ; Daftar Perusahaan PMDN di Pulau Batam sampai dengan 12/11/1993.

<sup>171</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>172</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

<sup>173</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993.

	The Soehardjo	PT Marina City Development (25%) <sup>174</sup>	Fisheries
Yayasan Angkatan Laut		PT Jalatara Indah (?) <sup>175</sup>	Marina Club
Yayasan Adi Upaya		PT Batam Aircraft Maintenance (20%) <sup>176</sup>	Aircraft Maintenance Facility

<sup>174</sup> BIDA ; Daftar Perusahaan PMA di Pulau Batam sampai dengan 11/11/1993 .

<sup>175</sup> Tempo, 7 September 1991.

<sup>176</sup> Straits Times, 3 September 1994.

One example of the growing regional connections was the 1994 announcement of a 400 ha. industrial estate strongly supported by FOKUS and bringing together companies from Malaysia, Singapore, Brunei and Indonesia. The estate will be developed by PT Bandar Mardi Perkasa, a consortium made up of the Bandar Group, Citra Group, Gema Group and Mataram Group, Perkasa Group, Bukaka Group, and JSEDC (Johor State Economic Development Corporation) Technopark Sdn Bhd.<sup>177</sup> Habibie has allocated a further 160 ha. of land on Batam for projects aimed at regional cooperation.<sup>178</sup>

Another example was the container port contract, which was awarded to Habibie's brother, Timmy, and YTL Corporation, one of Malaysia's top five building contractors whose Managing-Director, Francis Yeoh, is close to Prime Minister Mahathir.<sup>179</sup> Other recent events, such as the golf tournament for the Madame Tien Soeharto Cup organised by the Merah-Putih Foundation, have been explicitly promoted as part of a campaign to maintain friendship between Indonesian state officials and entrepreneurs with their counterparts in Singapore, Malaysia and other countries.<sup>180</sup>

Indonesian business groups differ markedly in their motivations for doing business on Batam. In most cases, particularly those with strong political connections, these Indonesian conglomerates have been tied to the domestic market because of commercial timidity, inexperience and protection from competition, and were able to obtain first preference for projects in the tourism sector, in industrial estates and in real estate, mostly for speculative purposes.

Speculators on Batam are dominated by domestic investors looking for quick profits, for property development is an easy means of capital accumulation. Many of those who make up this group, known as the *tanah mafia* (land mafia), are closely connected or related to BIDA and senior Indonesian officials.<sup>181</sup> BIDA has maintained an outwardly tough attitude to land speculation, particularly by revoking investment licensees and land permits. However, it has so far targeted mainly foreign and small domestic investors, and not taken action against the tanah mafia, especially blatantly speculative projects such as certain domestically-owned industrial estates which remained empty six years after being licensed.

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<sup>177</sup> Industries in the industrial park will reportedly include an electronic-chip factory, cable industry, automobile manufacturing and health industries. *Kompas*, 21 September 1994. *Bisnis Indonesia*, 27 October 1994.

<sup>178</sup> *Straits Times*, 27 March 1996.

<sup>179</sup> *Far Eastern Economic Review*, 26 October 1995, p 64.

<sup>180</sup> *Jakarta Post*, 12 October 1995.

<sup>181</sup> It is this group which is mostly responsible for current land prices and the illegal sale of land to third parties. For instance, land at Mukakuning is being offered for US\$150 sq.m., even though the official rate is US\$0.34 sq.m. *Forum Keadilan*, 11 September 1995. See also *Tempo*, 3 April 1993.

For others, Batam offered opportunities to do business with Singapore, and to take advantage of its international business expertise and geographic proximity, many hoping that establishing a beachhead in Singapore would propel them onto the international stage, facilitate fund procurement and boost international competitiveness. Quite clearly the partnership between Singaporean state capital, and conglomerates connected to Indonesia's political elite has characterised much of the current developments on Batam, particularly in infrastructure, and has played a crucial role in attracting investment. The most prominent is the partnership which created BIP. Other projects are just as important.

Through its investments on Batam, the Salim Group is perhaps now less constrained by geographical boundaries than in the past. That Batam is Anthony Salim's pet project, and not his father, Liem Sioe Liong's, may indicate an important shift away from the use of political connections to further business interests.<sup>182</sup> However, the list of investments on Batam suggests both the importance of patronage as well as smart business decisions. Whilst the Salim Group may be rich and well-connected, it requires partners with the necessary expertise in many cases, although it usually insists on being the majority shareholder, so that it can call the shots.<sup>183</sup>

There has been concern in Indonesia over the concentration of large business groups in the economic development of Batam, not only because of the limited number of domestic participants in what is seen as the Singapore-Batam project, but also because these major domestic investors are mostly limited to a number of big Jakarta-based groups. Opposition in Indonesia has focused considerable attention on the dominance of domestic political and economic elites in the development of Batam, and there has been criticism that only a few will benefit from developments.

In particular, the dominance of these conglomerates has caused resentment among many, mainly pribumi, Indonesian businessmen who have been largely left out of the action. Many of the complaints reflect dissatisfaction among some quarters in Jakarta who believe that industrial development on Batam was being monopolised by certain foreign and national conglomerates.<sup>184</sup> For instance, the Chairman of Gapensi (Gabungan Pelaksana Konstruksi Nasional Indonesia), Agus Kartasasmita, called for policies to help national contractors compete with foreign contractors on Batam.<sup>185</sup>

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<sup>182</sup> *Asiaweek*, 18 January 1991, p 48.

<sup>183</sup> *Singapore Business*, December 1990.

<sup>184</sup> *The Straits Times*, 28 September 1990. *The Jakarta Post*, 28 September 1990.

<sup>185</sup> Whilst a number of large national contractors had joined in Riau projects, the largest obstacle was that foreign contractors were better prepared to do the larger projects. The ability of national contractors to obtain development projects was low compared to foreign contractors, mainly because of high bank interest rates in Indonesia, as well as the fact that foreign contractors were able to bring their materials straight from Singapore, duty-free and cheaper.

Criticism has also been levelled at non-pribumi businesses who have been called on to be more patriotic.<sup>186</sup>

These criticisms are not necessarily specific to Batam but also appear at the national level, and attempts have been made to promote "understanding" of development plans among these businessmen and senior government officials in order to combat this resentment. The government's argument is that initially, because of the need for integrated planning, strong partners were needed to get projects going.<sup>187</sup>

### **Operational Aspects of Development**

It is clear that Batam possesses several strengths : a strategic location beside the Malacca Straits and Singapore; the full support of the Indonesian, and Singaporean, governments; attractive facilities such as bonded zone status and 100% foreign ownership; and a relatively low wage workforce compared to neighbouring Singapore and Malaysia. However, despite being promoted as an 'oasis' of trade and industry in the middle of a generally restrictive economic system, Batam Island suffers from the same kinds of operational problems found in the rest of Indonesia - bureaucratic hold-ups, infrastructure inadequacies, regulatory restrictions and uncertainties, and administrative problems. It is these weakness's that threaten continued investor interest.

#### **Infrastructure**

The development of infrastructure on Batam Island is being underwritten by the Indonesian government. By the end of 1994, US\$859m. had been spent on the development of Batam, primarily on infrastructure such as arterial and collector roads, an airport, and developing public utilities and communications facilities. (See Table 6.6) However, despite the huge outlay of monies, infrastructure problems remain serious, and investors often complain about the slowness of infrastructure development, and problems caused by lack of power, water supply, and telecommunications.

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Agus stressed the need to involve Kadin and interested associations, so that right from the beginning Indonesian contractors were ready to handle projects in the Riau area. *Kompas*, 4 June 1993. *Media Indonesia*, 4 June 1993.

<sup>186</sup> *Prisma*, May 1991.

<sup>187</sup> *Business Times*, 27 September 1991.

**Table 6.6**

**Government Investment on Batam Island, 1969/70-1990/91<sup>188</sup>**

	Pertamina (US\$)	Perumtel (US\$)	Foreign Aid (US\$)	Government (PMP) (US\$)	Sand Royalties (US\$)	Total Investment	
						Yearly (US\$)	Cumulative (US\$)
1969/70						-	-
1970/71						-	-
1971/72	21,459,337.41					21,459,337.41	21,459,337.41
1972/73	21,459,337.41					21,459,337.41	42,918,674.82
1973/74	21,459,337.41					21,459,337.41	64,378,012.23
1974/75	21,459,337.41					21,459,337.41	85,837,349.64
1975/76	21,459,337.41					21,459,337.41	107,296,687.71
1976/77				2,611,812.14		2,611,812.14	109,908,499.80
1977/78				2,611,812.14		2,611,812.14	112,520,311.90
1978/79				2,611,812.14		2,611,812.14	115,132,124.10
1979/80				11,313,801.18		11,313,801.18	126,445,925.30
1980/81				15,527,296.83		15,527,296.83	141,973,222.10
1981/82			906,097.76	37,291,036.20		38,197,133.96	180,170,356.10
1982/83				47,381,748.42		47,381,748.42	227,552,104.50
1983/84				25,450,641.78		25,450,641.78	253,002,746.30
1984/85		4,733,952.74		19,813,096.38		24,547,049.11	277,549,795.40
1985/86		4,733,952.74		29,152,857.52	1,768,815.78	35,655,626.04	313,205,421.40
1986/87		4,733,952.74	1,857,719.71	7,454,359.40	29,673,109.29	43,719,141.14	356,924,562.50
1987/88		4,733,952.74		2,918,205.48	18,928,500.33	26,580,658.55	383,505,221.10
1988/89		4,733,952.74		6,185,696.66	13,564,545.29	24,484,194.69	407,989,415.70
1989/90		4,733,952.74	111,930,066.60	10,625,731.00	3,672,147.96	130,096,189.30	538,085,560.50
1990/91		4,733,952.74	7,432,669	17,818,190.72	16,163,378.69	46,148,191.01	585,099,495.10
<b>Total</b>	<b>107,296,688</b>	<b>33,137,669.17</b>	<b>122,126,553.00</b>	<b>238,768,098.00</b>	<b>83,770,497.34</b>	<b>585,099,495.10</b>	

<sup>188</sup> Investment by Pertamina and Perumtel averaged out. BIDA ; Data Kemajuan Pembangunan Daerah Industri Pulau Batam sampai/dengan bulan April 1991 (Jakarta 1991).

According to a survey conducted by the Singapore Manufacturers Association in September 1992, the major complaint of companies operating on Batam Island was poor infrastructure.<sup>189</sup> Many investors continue to provide their own power generation and water supply facilities, and prospective investors remain cautious of infrastructure described only as adequate. Whilst John Forgrieve, Senior Adviser (BPPT) to Habibie, advocated in 1991 that steps be taken to address power and water shortages on Batam, little has been achieved in those areas.<sup>190</sup>

BIDA is still in the process of developing infrastructure in utilities which, as it is developed to a certain stage is transferred to relevant government ministries for future development and maintenance. For example, both Perumtel, the state-owned telecommunications company, and PLN, the state-owned electricity company, have taken over their respective facility's from BIDA.<sup>191</sup> However, both PLN and Perumtel remain unable to fulfil the needs of investors on Batam.

Whilst telephone density on Batam is the highest in the country, many Batam residents have subscribed to mobile cellular telephone networks based in Singapore because of inadequate facilities.<sup>192</sup> Electricity tariffs on Batam are the highest in Indonesia, and despite PLN's guarantee that tariffs will remain cheaper than in Singapore, at only Rp1-2 lower than in Singapore the difference is quite unremarkable.<sup>193</sup> Water facilities are also poor, in terms of both supply and maintenance - BIP handed over three pumps it built at a nearby reservoir to the local water authority only to find that within three years, two no longer worked and one worked only at fifty percent efficiency because of poor maintenance.<sup>194</sup>

The creation of industrial estates was one way of overcoming infrastructure inadequacies. Industrial estates would provide basic infrastructure, a major advantage considering BIDA, while providing some services, lacks the resources to meet all the needs of the industries relocating to Batam. For instance, power generators and communications facilities would be installed in the industrial parks. In addition, most administrative requirements could be transferred to third parties, and in this way

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<sup>189</sup> Singapore Manufacturers Association ; SMA Survey Report on the Johor-Singapore-Riau Growth Triangle (Singapore, September 1992).

<sup>190</sup> US Embassy, Jakarta ; Field Trip Report : Batam Island Investment Opportunities (25 February 1991).

<sup>191</sup> The Jakarta Post, 29 October 1992. Business Times, 22 December 1992. Endah Pratiwi ; "Pembinaan Pembangunan Batam dan Masalahnya", in Tim UGM , Pola Dasar Kotamadya Batam , (UGM 1993), p 92. In 1995 Perumtel handed over its cross-border communications to PT Indosat, the state-owned international telecommunications operator. Jakarta Post, 16 August 1995.

<sup>192</sup> In 1991 Batam telephone density was 7.8 telephones per 100 residents, higher than Jakarta's 6.8 and Indonesia's 0.5. Jakarta Post, 17 May 1991.

<sup>193</sup> The Jakarta Post, 29 October 1992. Suara Pembaruan, 5 February 1993.

<sup>194</sup> Interview with BIP Executive, October 1994.

investors would be largely insulated from the maze of regulations and procedures which existed in the Indonesian administrative system.

By early 1990, some nine industrial estates covering over 1,800ha. had been approved on Batam, accounting for half of all industrial estates outside Java.<sup>195</sup> (see Table 6.7) However, only BIP has had any real impact on Batam Island. Of the other eight approved industrial parks only Kabil Industrial Estate has attracted tenants.<sup>196</sup> The other seven remain empty, or relatively so.<sup>197</sup>

The failure of industrial estates has not been specific to Batam Island. Only 30% of the 154 companies licensed to develop industrial estates in Indonesia since 1989 had done so by mid-1995. According to HKI (Himpunan Kawasan Industri or Industrial Estate Association) there were a number of reasons for the low achievement rate - low investor demand, inconsistent government policies, inadequate infrastructure and facilities, and the fact that many of them were really established for the purpose of land speculation.<sup>198</sup>

All of those factors can be applied to the failed industrial estates on Batam Island. For instance, PT Astra Microtronics moved to BIP from another industrial estate on Batam because of poor infrastructure and utilities.<sup>199</sup> Industrial estate developers have also been identified as a major culprit of land speculation, mainly because their land plots are relatively large and thus more visible. They have included both foreign and domestic investors.

There have also been factors that are specific to Batam. The first is the role of Singapore. The main reason for BIP's success has been the strong support it has received from the Singapore government and agencies such as the EDB, and this has helped to attract investors. There is no Singaporean interest in other industrial estates, and they are not marketed or generally known in Singapore.<sup>200</sup> The second factor is the discouragement of low-technology industries on Batam Island. Kabil Industrial Estate has been keen to attract Singapore garment manufacturers but has been unable to convince BIDA to make exceptions.<sup>201</sup>

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<sup>195</sup> Indonesian Commercial Newsletter, 25 July 1995.

<sup>196</sup> One of which was a subsidiary of the developer, the Citra Group. PT Citra Tubindo has invested in a US\$35m. seamless pipe processing plant. Energy Venture of the USA has a US\$45m. drill pipe plant. The Jakarta Post, 19 June 1991. Business Times, 15 April 1992.

<sup>197</sup> Kompas, 15 May 1993. Media Indonesia, 29 May 1993. Forum Keadilan, 11 September 1995.

<sup>198</sup> The Jakarta Post, 17 July 1995.

<sup>199</sup> Interview with Astra Executive, October 1994.

<sup>200</sup> Interview with BIP Executive, September 1994.

<sup>201</sup> Straits Times, 2 September 1993.

Table 6.7

Approved Industrial Estates on Batam Island<sup>202</sup>

<u>Name</u>	<u>Komisaris Utama</u>	<u>Investment Type</u>	<u>License Date</u>	<u>Location</u>	<u>Size</u>
PT Kabil Indonusa Estate PT Citra Agramasinti Nusantara (75%) Netherlands Development Finance Co. (25%)	Kris Wiluan	PMDN	25/09/1989	Kabil	176 Ha.
Kwang Hwa Industrial Park PT Sarana Usaha Adhi Rekayasa (25%), Batam International Development Co. Ltd. (75%)	Ir Bambang Tribudiman	PMA (Taiwan)	12/05/1989	Kabil	339 Ha.
Thomas Technology Park Thomas Engineering Pte Ltd (20%), Ny. Lin Su Lien (80%)	William James Thomas	PMA (Singapore)	30/05/1989	Batam Centre	31 Ha.
PT BatamIndo Investment Corporation PT Herwindo Rintis (60%), STIC (30%), JEE (10%)	S.A.Habibie, Anthony Salim	PMA (Singapore)	08/12/1989	Muka Kuning	500 Ha.
PT Seafont Industrial City Boonoon (70%), Expogrowth Investment (10%)	Abdul Kadir Bakry	PMA (Singapore, Hong Kong)	23/10/1989	Sagulung	350 Ha.
PT Spinindo Mitradaya Batam PT Persero Batam (10%), PT Spinindo Mitradaya (10%) KADIN businessmen (80%)	Soedarsono	PMDN	20/12/1989	Tanjung Uncang	100 Ha.
PT Kabil Industrial Estate PT Putri Selaka Kencana (100%)	Sudwikatmono	PMDN	19/12/1989	Kabil	75 Ha.
PT Tanjung Uncang Industrial Estate PT Putri Selaka Kencana (100%)	Sudwikatmono	PMDN	19/12/1989	Tanjung Uncang	125 Ha.
PT Trisatya Usaha Raya PT Trisatu	B.Trisulo	PMDN	11/01/1990	Tanjung Uncang	20 Ha.

<sup>202</sup>OPDIPB ; Data Kemajuan Pembangunan Daerah Industri Pulau Batam Sampai Dengan Bulan April 1991 (Jakarta, 1991). Business Times, 28/10/1991. Construction Industry Development Board ; Batam Outlook 1990, 2nd Edition, (Singapore, June 1990).

Habibie has not only told industrial estate developers to study and to emulate BIP, but has actually taken certain developers personally to BIP and told them publicly to get their act together.<sup>203</sup> In the meantime, at least three industrial estates have been reduced in acreage by BIDA.<sup>204</sup> The outlook for the majority of industrial estates other than BIP does not look bright. According to the Vice-Chairman of DPR Komisi VI, the failure of these industrial estates is proof that economic growth and development on Batam are not on target.<sup>205</sup>

The case of the Taiwanese-backed Kwang Hwa Industrial Park is an interesting one. Set up for Taiwanese investors in late 1989, by 1992 Kwang Hwa was still only identifiable by a signboard and a small administration office despite plans for the completion of the first phase of the estate by that time, and the fact that some 27 Taiwanese companies had already booked space.<sup>206</sup> Following a high-level Indonesian mission in November 1992, Taiwan again considered investing on Batam Island, announcing that state-owned companies such as TDTC, China Steel, China Petroleum, and an airline and shipping company were planning to invest US\$10b.<sup>207</sup> Several months later, Taiwanese Premier Lien Chan named Batam a special investment project, aimed partly at cooling Taiwanese investment fervour in China.<sup>208</sup>

However, members of Taiwan Parliament's main opposition party called on the government to demand that Jakarta revise its stance in objecting to Taiwan (and Hong Kong) attending the upcoming APEC summit, or retract its investment plan on Batam Island in retaliation. Indonesian Foreign Minister Ali Alatas had announced a few days earlier that Indonesia would only attend a meeting of leaders of APEC member countries if Taiwan and Hong Kong were not invited.<sup>209</sup>

In August 1993, the Indonesian government, upset by the slow progress of the development of Kwang Hwa, revoked the developer's licence because very few Taiwanese firms had invested on Batam, despite the promises of the Taiwanese

<sup>203</sup> Interview with BIP Executive, October 1994. *Media Indonesia*, 13 March 1995.

<sup>204</sup> They are Kwang Hwa Industrial Estate, PT Thomas Technology Park and PT Seafont City. *Bisnis Indonesia*, 16 March 1995.

<sup>205</sup> *Media Indonesia*, 29 May 1993.

<sup>206</sup> *Business Times*, 28 October 1991. *Straits Times*, 30 March 1992.

<sup>207</sup> The plan was put together by Taiwan's World Economics Society, a semi-government think-tank. *Straits Times*, 21 July 1992. *China Economic News Service*, 15 June 1993. Reuters Textline 15Jun93. Another source put the figure at US\$100 million. *China Economic News Service*, 10 August 1993. Reuters Textline 10Aug93.

<sup>208</sup> *China Economic News Service*, 14 August 1993. Reuters Textline 14Aug93. *China Economic News Service*, 7 August 1993. Reuters Textline 07Aug93. Taiwanese investment in Indonesia had been falling as Taiwanese companies diverted more funds to China, despite the fact that the Taiwanese Ministry of Economic Affairs had recommended Indonesia, in early July 1993, as one of six Southeast Asian and Latin American countries as suitable investment sites for outbound Taiwan manufacturers. *China Economic News Service*, 8 July 1993. Reuters Textline 08Jul93.

<sup>209</sup> *China Economic News Service*, 10 August 1993. Reuters Textline 10Aug93.

government to encourage its manufacturers to invest there. The Taiwanese developers reacted by suspending their investment, halting construction work and withdrawing personnel from Indonesia, reportedly because of a disagreement with its Indonesian partner.<sup>210</sup> Three months later, the Taiwanese developer announced plans to continue its industrial estate project after solving its dispute with the Indonesian government.<sup>211</sup> However, the size of the estate was reduced by BIDA, on the understanding that it could be enlarged on the basis of good future performance.<sup>212</sup>

Following another investment promotion visit to Taiwan in January 1994, it was reported that Taiwanese businessmen were expected to invest US\$370m in the industrial estate in 1994.<sup>213</sup> According to Taiwanese press reports, the investment aimed to change Indonesia's mind about Taiwan's participation in the upcoming APEC meeting in Jakarta. This was denied by BIDA which claimed that the investment plan was a serious one.<sup>214</sup> However, Taiwan did not attend the APEC meeting and the investment plan had not been realised by the end of 1995.<sup>215</sup>

The plan again received renewed interest in mid-1995, supported by Taiwan's Ministry of Economic Affairs.<sup>216</sup> Taiwan's Economic Minister requested that the original size of Kwang Hwa industrial park be restored, and asked for facilities from the Indonesian government for Taiwan to place a trade representative on Batam.<sup>217</sup> While the industrial park was restored to its original size in August 1995, there are no details about future Taiwanese investment plans. Meanwhile Taiwanese investment accounts for only 4.3% of total foreign investment on Batam.<sup>218</sup>

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<sup>210</sup>US\$26 million had reportedly already been spent on the project. Reuters News Service, 28 August 1993. Reuters Textline 28Aug93. China Economic News Service, 28 August 1993. Reuters Textline 28Aug93. Bisnis Indonesia, 9 November 1993.

<sup>211</sup>Bisnis Indonesia, 9 November 1993.

<sup>212</sup>Interview with Gunawan Hadisusilo, 10 August 1994.

<sup>213</sup>Indonesia Business Weekly, Vol.11 No.6 (21 January 1994).

<sup>214</sup>Bisnis Indonesia, 11 January 1994.

<sup>215</sup>Interestingly, it also timed with the awarding of the Asiaport project to an ASEAN consortium. Taiwan's Evergreen Group had showed the greatest interest in the project, and for a long time appeared to be the likely developer, not only because it began designing and making a feasibility studies at its own expense, but because Evergreen Chairman Chang Rung-fa had held high level talks with Soeharto, and was described as "personal Adviser" to Habibie on Batam's general development. According to Habibie, Evergreen's boss asked to be special adviser for the development of the container port. Despite high-level contacts and being offered the project in 1994, either a breakdown occurred in negotiations between Evergreen and Habibie, or Habibie had a change of heart, and the project was awarded to the ASEAN consortium after a presentation of bids in early 1995. For details, see The Jakarta Post, 21 May 1993. Reuter News Service, 15 June 1993. Reuters Textline 15Jun93. The Jakarta Post, 16 June 1993. Lloyd's List, 29 July 1993. Reuters Textline 29Jul93. Bisnis Indonesia, 9 December 1993. The Jakarta Post, 10 December 1993. Bisnis Indonesia, 11 January 1994. Bisnis Indonesia, 15 February 1994. Far Eastern Economic Review, 24 February 1994. Far Eastern Economic Review, 10 March 1994.

<sup>216</sup>China Economic News Service, 1 June 1995. Reuters Textline 1Jun95.

<sup>217</sup>Tiras, Th.I No.32, 7 September 1995.

<sup>218</sup>There have been reports that Taiwanese companies will invest in an industrial estate in Medan. Reuter News Service, 29 January 1996. Reuters Textline 29Jan96.

Compounding problems on Batam has been the failure of overall planning, both of infrastructure and general development. Whilst there is a masterplan with an integrated urban infrastructure development program, for the most part it doesn't work, and in practice, the Masterplan has little influence over planning - five-yearly evaluations generally only update the Masterplan according to existing developments.<sup>219</sup> In fact, planning practices have developed very much on a pragmatic basis. For instance, the land use plan does not conform with the actual practice, necessitating the constant drawing up of new land use plans.<sup>220</sup>

One example of poor planning concerns that of social infrastructure. As elsewhere in Indonesia, rapid economic growth and industrialisation have resulted in a sharp increase in social, cultural and political problems. On Batam Island, three major factors - high population growth, high unemployment and a high cost of living - are behind these problems which, if they remain un-addressed, pose a considerable threat to the future success of industrial and economic development.

Whilst the official population of Batam at the end of 1994 was put at just over 160,000, the true figure is at least twice that because it is based on the number of registered, and therefore not actual, citizens.<sup>221</sup> According to a BIDA spokesman, the main cause for high population growth - at 12.1% annually, it is five times the national average<sup>222</sup> - is uncontrolled inward migration, running at around 3,000 newcomers a month.<sup>223</sup> Whilst the potential for a massive inflow of population to Batam is clearly great in such a highly-populated and employment-short country, inward labour migration has placed enormous pressure on basic resources such as housing and health-care, as well as facilities for training and skills-formation.

Job seekers, essentially economically-driven transmigrants, have flooded into Batam Island attracted by rumours and reports of abundant work and good pay, creating a huge

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<sup>219</sup> Interview with BIDA Executive, August 1994. The Masterplan is evaluated around every five years, with recommendations about the general direction of development in order to maintain a framework for sustainable development, optimal use of resources, and infrastructure development up to 2006. Adjustments and alterations are made according to both short and long term needs and projections. For example, an evaluation conducted in 1991 by the Faculty of Technology of the University of Indonesia and PT Atelier 6, a private consulting firm, added more low-cost housing and water supply facilities to the Masterplan. Other reviews have been undertaken in 1983, by Planning Research Corporation, USA and PT Atelier 6, in 1985, by Fakultas Teknik, Universitas Indonesia. BIDA & Lembaga Teknologi, Fakultas Teknik Universitas Indonesia & PT Atelier 6 ; Evaluasi Masterplan Pulau Batam (Final Report) 1991. (Jakarta, 1991). Interview with Gunawan Hadisusilo, 10 August 1994. Interview with Halomoan Panjaitan, 1 September 1994. Members of the DPR have expressed concern that such evaluations of Batam's development take too long and are not objective. Antara, 7 May 1993.

<sup>220</sup> Mubariq Ahmad ; "Economic Cooperation in SIJORI Growth Triangle : An Indonesian Perspective" Ekonomi dan Keuangan Indonesia, Vol.40 No.4 (1992), p433.

<sup>221</sup> BIDA ; Barelang : Development Data up to December 1994 (Jakarta 1995).

<sup>222</sup> Tempo, 3 April 1993.

<sup>223</sup> Jakarta Post, 18 January 1995.

labour pool.<sup>224</sup> However, very few newcomers, the vast majority of which are unskilled, are able to find employment. As a result, unemployment currently stands at around 60% on Batam.<sup>225</sup> With a ratio of those asking for and offering work of 2:1, the only course open to BIDA and the Indonesian government is to discourage newcomers, but so far efforts made in this area have been largely unsuccessful.<sup>226</sup> How to control the movement of people to Batam remains one of the biggest challenges for the Indonesian government.<sup>227</sup>

Unrestrained migration, combined with high unemployment and a high cost of living, has also led to a proliferation of *ruli* (rumah liar or squatter settlements) encroaching on, and threatening, the green belt of protected forest and water-catchment areas. Researchers from Gadjah Mada University calculated that 27% of Batam's population lived in an estimated 6,700 *ruli* in 1992.<sup>228</sup> More recent estimates place between 40-50% of Batam's population living in around 16,000 *ruli* at over 59 locations.<sup>229</sup> The Governor of Riau has acknowledged that the fault for this lies in the government's failure to foresee the huge influx of people to Batam.<sup>230</sup> The failure of population controls, high unemployment and the prediction and provision of associated social infrastructure such as low-cost housing threatens the future success of industrial and economic development, and the government has no option other than to pay more attention to these problems.

An example of the failure of economic and physical planning is the development of Batam Centre, projected to become a modern business district upon completion by

<sup>224</sup> Angkatan Bersenjata, 4 December 1990.

<sup>225</sup> Suara Pembaruan, 22 April 1995.

<sup>226</sup> Attempts have been made to discourage job-seekers from coming to Batam. Habibie himself is fearful of the employment problems emerging on Batam, and has campaigned for tighter efforts to control newcomers. Habibie has told those with no skills not to come to Batam (Kompas, 21 October 1992), has requested all Governors to mobilise those with skills in their province and send them to Batam (Tempo, 3 April 1993), and has proposed that local governments assess all intending to migrate to Batam and select only those with skills to be allowed (Suara Karya, 21 January 1995). Job seekers, too, have been told to apply through the inter-regional labour service agencies to secure a job before arriving on Batam. Others have been told that Batam Island's Manpower Office would only serve Batam residents, whilst the Ministry of Manpower and the Riau Governor have issued rulings that priority would be given to job seekers from Riau (Jakarta Post, 16 March 1992). However, these efforts have for the most part been ignored. Most job seekers are generally reluctant to use the services of the Department of Manpower, preferring to find work on their own.

<sup>227</sup> New proposals for stemming the flow of newcomers have emerged - Pemda has put forward a proposal to the government and the DPR that newcomers pay some sort of guarantee before being allowed entry (Kompas, 2 June 1994), and BIDA supports the issuing of special passes as used in the Shenzhen Special Economic Zone in China (Bisnis Indonesia, 21 November 1994) - however, both in the practical and legal senses, there is no simple solution.

<sup>228</sup> They took the number of houses and multiplied it by five (the average household size) giving a total of 33,500 people or 27.2% of population in 1992. Putu Sudira; "Pemukiman Penduduk di Pulau Batam dan Masalahnya" in Tim UGM Pola Dasar Kotamadya Batam, (UGM 1993), p 25.

<sup>229</sup> Suara Pembaruan, 10 May 1995. Other estimates include 6,000 *ruli* in May 1993 (Antara, 1 May 1993), 7,620 *ruli* at 57 locations in September 1993 (Kompas, 24 September 1993), 35,000 in October 1993 (Suara Karya, 4 October 1993), 12,000 in March 1994 (Kompas, 31 March 1994), 16,000 in September 1994 (Suara Pembaruan, 13 September 1994), and 15,000 in November 1994 (Bisnis Indonesia, 21 November 1994).

<sup>230</sup> Business Times, 9 October 1992.

1995. The idea received strong interest from investors who took up several dozen land parcels for development, and proposed investments worth several hundred million dollars in the late 1980s and early 1990s.<sup>231</sup> However, apart from BIDA's office complex and several completed or near-completed residential housing projects, Batam Centre was virtually bereft of activity at the end of 1994, and those living there suffered from power failures, and poor water supplies.<sup>232</sup>

According to Habibie, total long-term investment in infrastructure on Batam will amount to US\$2,000 million, the majority of which would come from the government's budget. Most of this additional infrastructure investment is earmarked for expansion of port facilities (US\$1,222 million) and the expansion of the airport (US\$132 million).<sup>233</sup> Infrastructure development is dominated by a largely nationalist agenda of large-scale infrastructure projects and programs.

Most of these projects are aimed at replicating, and even replacing, certain facilities in Singapore. Batam Island has long been cited as an area of significant potential for establishing transshipment operations of the type offered in Singapore, and has been targeted as a sea and air cargo and passenger transit centre. According to Habibie and BIDA, the air and sea ports pose competition for Singapore, but with the overall aim of maximising utilisation of Batam, preventing double-handling in import/export operations, and to make facilities for Indonesia's own activities.<sup>234</sup> BIDA Chief Executive, Djatmiko, put it this way,

We are in a very strategic location and are trying to take advantage of this, just as Singapore has done."<sup>235</sup>

The first step taken has been to develop Batam Island as an international air passenger and cargo transit centre. Batam's Hang Nadim airport, following in the footsteps of Johor's airport in Senai, went international at the end of 1995 as part of Indonesia's fiftieth anniversary of independence celebrations.<sup>236</sup> According to Habibie, the airport will replace some of Singapore's Changi airport's functions as a flight transit centre to and from Indonesia.<sup>237</sup> According to Habibie,

<sup>231</sup> *The Straits Times*, 28 April 1990. *Business Times*, 19 April 1993.

<sup>232</sup> Various Interviews and Site Surveillance on Batam, October 1994. Batam Centre Port has never come about, nor has the Batam Sheraton which was planned to be completed by mid-1993. *Business Times*, 11 November 1991.

<sup>233</sup> *The Jakarta Post*, 5 December 1990.

<sup>234</sup> Interview with Gunawan Hadisusilo, 10 August 1994. *Straits Times*, 30 January 1993.

<sup>235</sup> *Straits Times*, 11 December 1995.

<sup>236</sup> Completion was rushed forward to December 1995 from March 1996. *Kompas*, 28 May 1994. The US\$280m. third-phase of the airport expansion project was being carried out by a consortium including Itochu, of Japan, PT Puri Bangun Mustika, of Indonesia, and Hyundai Engineering and Construction Co Ltd of South Korea. *JJI Press Newswire*, 20 September 1993. Reuters Textline 20Sep93.

<sup>237</sup> *Kompas*, 28 May 1994. *Straits Times*, 29 May 1994. See also *Business Times*, 27 April 1992. *Straits Times*, 18 May 1994. *Straits Times*, 28 August 1993. *Kompas*, 16 May 1995. The plan to make the airport serve as a Cargo

I hope that in the future ... international flights will transit on Batam and not in Singapore.<sup>238</sup>

An aircraft maintenance and overhaul facility has been set up to support the international airport. The facility will service Sempati airline's fleet, as well as be open to aircraft of other airlines, with the potential to compete with similar maintenance facilities in Singapore.<sup>239</sup> Whilst Garuda has begun using Batam for transit and as a refueling base on several international flights, the airport currently suffers from high fuel costs, a moderate volume of air cargo and an absence of international passenger traffic.<sup>240</sup>

The container port on Batam Island has been given high priority for development as a trans-shipment port for Indonesian exports and imports.<sup>241</sup> The US\$1 billion container port will be able to handle up to 20 million containers, general cargo and petrochemicals annually. Not only is it hoped that it will serve as a catalyst for the development of Batam, as well as end double-handling of cargo, but according to BIDA officials, it has the express purpose of competing directly with Singapore.<sup>242</sup> At the very least, the port is intended to reduce Indonesia's dependence on Singapore as an export channel - in 1992, 1.1 million of a total 1.7 million containers exported from Indonesia were transhipped through Singapore.<sup>243</sup>

By far the largest and most prominent infrastructure project is the plan to connect the Bareleng (Batam-Rempang-Galang) area with a series of bridges. (see Map 6.1) Purportedly to speed up development and to facilitate inter-island transportation and communication, it has been estimated that the completion of the bridges will require at least Rp600 billion.<sup>244</sup> Some, however, see the project as yet another, and the latest, Habibie ambition - to unite islands.<sup>245</sup>

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Transit Centre has received strong support from INACA (Indonesian National Air Carriers Association). Suara Pembaruan, 3 August 1993.

<sup>238</sup>Tempo, 6 May 1989.

<sup>239</sup>PT Batam Aircraft Maintenance - a joint-venture between Singapore Aerospace (SAE) (25%), IPTN (25%), Sempati Air (20%), PT Saltim, a subsidiary of the Salim and Timsco groups (10%), and Yasau (Yayasan Adi Upaya or Indonesian Air Force Officers Welfare Foundation) (20%) - aims to start operations by mid-1996, and will carry out a full range of maintenance services. The division of labour between the joint venture partners has SAE and IPTN providing technical and management expertise, and Yasau providing the land and building the premises for the facility which will then be leased to the joint venture. The Straits Times, 12 June 1993. The Jakarta Post, 19 August 1994. Straits Times, 3 September 1994. The airport itself will be managed by a BUMN (Badan Usaha Milik Negara or State Owned Corporation), created by BIDA at a cost of Rp500 billion. Bisnis Indonesia, 8 July 1995.

<sup>240</sup>It has been reported that efforts are being made to reduce costs and attract air traffic. Straits Times, 11 December 1995. Jakarta Post, 22 August 1996.

<sup>241</sup>Bisnis Indonesia, 22 March 1995.

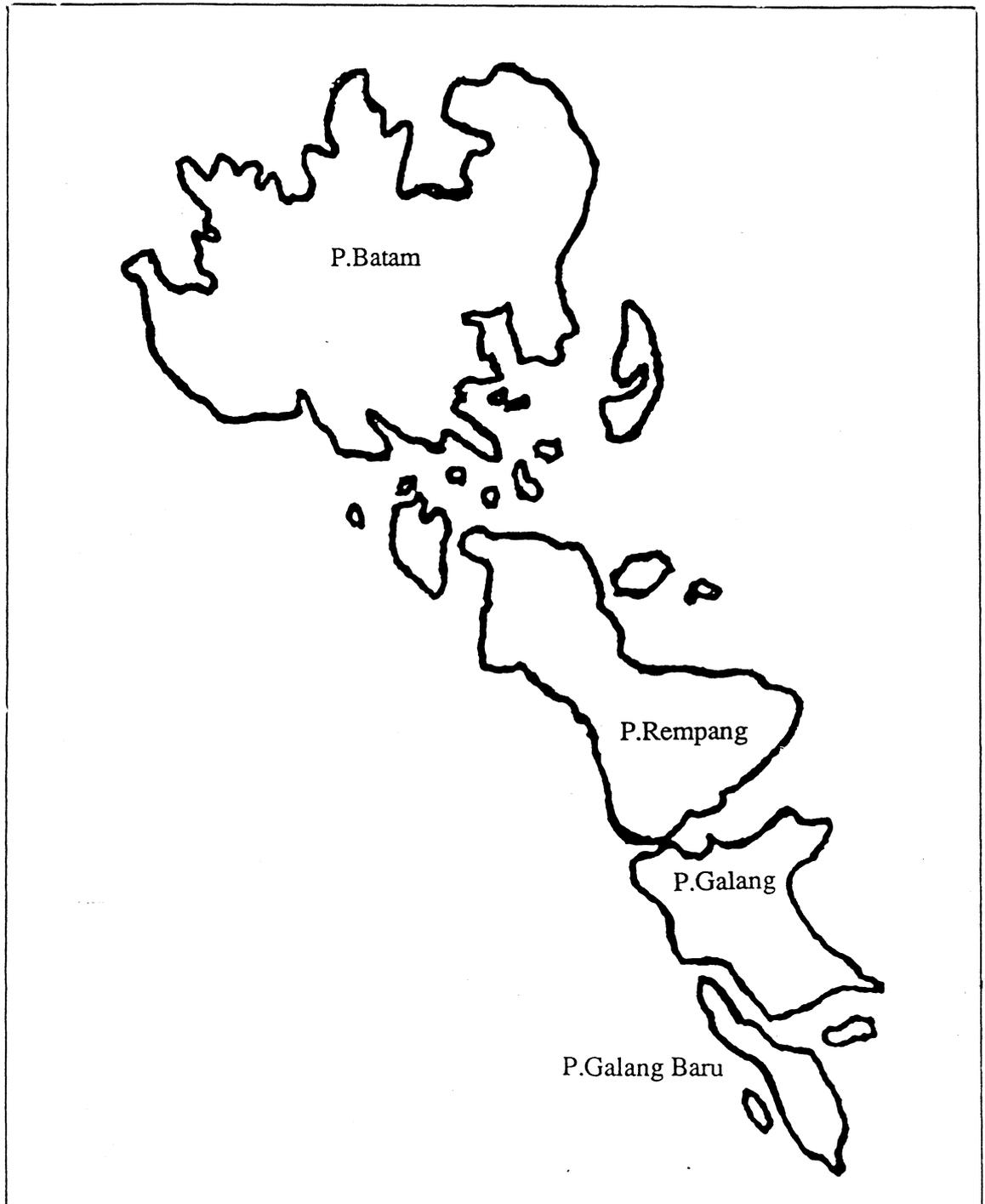
<sup>242</sup>Bisnis Indonesia, 9 December 1993. See also The Sunday Times, 23 May 1993. It has so far, however, failed to attract a major shipping line - both Evergreen and Global Alliance dropped their plans to use Batam. South China Morning Post, 3 June 1996. Straits Times, 8 July 1996.

<sup>243</sup>Lloyd's List, 14 October 1993. Reuters Textline 14Oct93. The Jakarta Post, 10 December 1993.

<sup>244</sup>Tirias, No.32 Th.I, 7 September 1995. The Bareleng masterplan was made by Lemtek of Universitas Indonesia and a team made up of Riau Governor's office, Batam Mayor's office, the Ministry of Defence and Security, BIDA and National Agency for Land Affairs. Planning of the bridges was done by LAPI-ITB under the Directorate

## Map 6.1

### Barelang (Batam-Rempang-Galang)



General of Highway Construction and Maintenance. BIDA : Business Directory : 22 years Batam Industrial Development Authority, (November 1993) , p76. The project also involved three state-owned universities : the Bandung Institute of Technology, which will handle construction engineering and technical matters, the University of Indonesia, which will deal with the master plan and economic matters, and Gadjah Mada University, which will deal with the social-political, cultural, economic and environmental impact of the new bridges. Construction News, 24 September 1992. Reuters Textline 24Sept92. Straits Times, 8 February 1993. BBC Monitoring Service, 10 February 1993. Reuters Textline 10Feb93.

<sup>245</sup> Tempo, 17 October 1992.

Batam Island requires more planning and strategic thinking about what exactly are the overall aims of development. It also needs more appropriate planning and infrastructure development if it is to continue to attract new investors over the long term, as well as retain existing investors in the near future. Currently infrastructure development is island-wide and scattered, and in a half-completed state. Despite the huge amounts of money being spent on infrastructure, very little of this is being spent on actually improving the infrastructure requirements of investors. Many question the merit of pouring monies into the development of the international airport and seaport when infrastructure development remains rudimentary and behind in the overall schedule.<sup>246</sup> In line with the national trend towards handing over the infrastructure role to the private sector, BIDA expects individual investors and industrial estate operators to provide the necessary facilities.<sup>247</sup>

### **Regulations**

Batam suffers from both inconsistencies in policy formulation and implementation, and poor coordination with relevant government Ministries and Agencies on Batam and in Jakarta. Whilst it is often claimed that Batam Island is more attractive to investors than other parts of Indonesia, regulations are often not clear, bureaucratic procedures complicated, and there is a lack of information about them.

According to a survey conducted by the Singapore Manufacturers Association in September 1992, one of the major complaints of companies operating on Batam was red tape.<sup>248</sup> Indeed, in several areas the level of bureaucratic hold-ups is perceived to be very high. For instance, BIP received building permits for Phase I of development almost three years after its completion.<sup>249</sup> The processing of investment applications, promoted as a one-stop service, is not only unwieldy but the process takes far longer than the promised eight weeks. This compares with a two-to-three week processing time in Johor and Singapore.<sup>250</sup>

In the case of the property and real estate crash on Batam in 1991, BIDA was clearly at fault for not providing accurate information to investors. In the late 1980s and early 1990s, BIDA told REI (Real Estate Indonesia) and property developers on Batam that

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<sup>246</sup> Various Interviews.

<sup>247</sup> Interview with Gunawan Hadisusilo, 10 August 1994.

<sup>248</sup> Singapore Manufacturers Association ; SMA Survey Report on the Johor-Singapore-Riau Growth Triangle (Singapore, September 1992). The whole regulatory set-up is so complicated and unclear that investors have called on BIDA to issue a detailed guidebook listing all regulations, processes and requirements, rather than issuing what are perceived as general and promotional brochures. Suara Karya, 1 June 1991.

<sup>249</sup> Interviews with BIP Executives, September-October 1994. The buildings accorded with Singapore regulations and easily met BIDA's standards.

<sup>250</sup> After being lodged with BIDA, applications are checked by the BKPM representative on Batam, forwarded to the BKPM in Jakarta before awaiting Presidential approval. The Jakarta Post, 16 August 1991. Singapore Business, April 1992.

their primary market was Singapore.<sup>251</sup> By the end of 1990, it was estimated that Singaporeans had purchased at least 3,000 commercial and residential properties on Batam.<sup>252</sup> However, Singaporeans soon found to their dismay that they could not own property under Indonesian law - what they had bought was a building but with no right of ownership or leasehold of the land on which it was situated.<sup>253</sup> As a result, Singaporeans were forced either to resell their properties at a lower price than what they paid, seek reimbursement, or to keep their investments by putting them in the names of Indonesian friends or relatives.<sup>254</sup>

For developers, property became difficult to sell, and most were forced to drop their selling prices by 35-40%, and many were forced out of business or into bankruptcy. Moreover, banks on Batam were hit hard by bad credit, reported to have reached Rp1 trillion for over 7,000 properties.<sup>255</sup> Since the crash, property developers have lacked funds, and banks on Batam have remained reluctant to provide credit for real estate development.<sup>256</sup> One developer, perhaps in deference to Habibie's balloon theory described the property market as a 'burst balloon'.<sup>257</sup> Property developers were not without fault, for they miscalculated the rate at which Batam would develop, and succumbed to the strong temptations of quick profits.<sup>258</sup> However, the fact was that land regulations were not clear; the clear majority of developers sold, and Singaporeans bought, property in good faith.<sup>259</sup> As the economist Mubyarto noted, public posturing

<sup>251</sup> Interview with Senior REI Official, 9 August 1994.

<sup>252</sup> *Tempo*, 8 May 1993. For instance, at the Real Estate 90 Exhibition, held in Singapore in January 1990, \$23m worth of properties on Batam were sold to Singaporeans for holiday use, as retirement homes and for investment, representing more than 70% of all Batam property offered for sale. *Business Times*, 10 January 1990. *Straits Times*, 24 March 1990. *The Straits Times*, 8 August 1990. According to one businessman, developers could sell 30-40 residential properties a month, the clear majority to Singaporeans. At Happy Garden Estate, 110 of the planned 130 houses were bought by Singaporeans. *Tempo*, 8 May 1993.

<sup>253</sup> *Singapore Business*, April 1992. Land rights granted under Indonesian law differ markedly from the concepts of freehold and leasehold land applicable in other countries, and do not recognise either the concept of freehold land rights, nor property ownership by non-resident foreigners. Foreigners cannot own land in Indonesia, and foreign residents can only rent or occupy land for a maximum of 30 years with the possibility for extension. Indonesia's land laws are enshrined in the Basic Agrarian Law of 1960 which recognises several types of rights on land, including the right of exploration, the right of building and the right of use. All rights are granted for fixed initial periods with options to extend. Only one, *hak milik*, offers a concept of freehold ownership but is only able to be held by Indonesians. The four land rights relevant to foreign investors are *hak guna bangunan* (right to build), granted for up to 30 years with renewals for another 20 years, where investors may build on the land designated and own the buildings constructed on the land; *hak sewa untuk bangunan* (right to lease); *hak pakai* (right to use), granted for initial 10 year periods for commercial purposes, where the land can only be used for specific activities as designated; and *hak guna usaha* (right of exploitation), granted for an initial 25 or 35 years periods with extensions for another 25 years, where state land can be used for fishery, agriculture and farming. These land rights are generally granted to foreigners for specific approved projects and may be forfeited if conditions attached to those rights are not satisfied. Ernst & Young; *Doing Business in Riau*, (Singapore, May 1992), p 24-25.

<sup>254</sup> It was being circulated that foreigners who bought houses could be thrown in jail. *Straits Times*, 9 May 1992. *Straits Times*, 28 March 1994. *The Straits Times*, 8 August 1990.

<sup>255</sup> *Tempo*, 8 May 1993.

<sup>256</sup> Mubyarto; "Pola Dasar Pembangunan Pulau Batam", in Tim UGM; *Pola Dasar Kotamadya Batam*, (UGM 1993), p 3.

<sup>257</sup> *Tempo*, 8 May 1993.

<sup>258</sup> *Kompas*, 14 May 1994. Interview with BIDA Executive, Oemar Lubis, 12 August 1994.

<sup>259</sup> Agnes Mawarni; 'Batam dan SIJORI', in Mubyarto dkk. *Riau Menatap Masa Depan*, (P3PK, Universitas Gadjah Mada 1993), p 135.

by BIDA and government officials muddied the situation - at first foreigners could own real estate, then not allowed, and later allowed again, and so on.<sup>260</sup>

Graft and corruption are also prevalent, and many investors complain of being forced to pay off local authorities on Batam, sometimes under threat.<sup>261</sup> Corruption not only affects the activities of foreign investors, but is rife in the day-to-day lives of the local community - in land acquisition, in controlling squatter settlements, and the issuing of identity cards.<sup>262</sup> An owner of an entertainment venue admitted that the security apparatus often carried out clean-up operations, but his business managed to continue operating by giving money to officials.<sup>263</sup> Some Rp500m. of taxes levied by Pemda even went missing, forcing the Governor to send in an investigatory team.<sup>264</sup> Addressing investor's complaints of corruption and 'unforeseen costs', Habibie insisted that he knew nothing about corruption on Batam and that if there was he would deal with it.

There is no corruption on Batam Island with regards to the activities of investors who are involved in developments there. If there is, give me proof and I'll take action.<sup>265</sup>

One well-publicised, but failed, case of localised corruption occurred when the Chairman of Golkar Batam, Bambang Sujagad, attempted to influence the awarding of contracts. In a letter to Habibie, Bambang claimed that senior BIDA official, Gunawan Hadisusilo, was obstructing pribumi businesses on Batam because he had cancelled the awarding of a tender won by a noted Golkar donor, Muchamad Amin. Bambang claimed that he had not asked for land or tenders but, considering that Batam did not have a DPRD (Regional Parliament), he regarded Golkar as a political organisation responsible for putting forward people's complaints to the government. The action, however, was considered by other members of the Board of Management as a violation of Golkar's rules because the letter was for private use, and there was no link between the letter's matter and Golkar.<sup>266</sup>

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<sup>260</sup> Mubyarto ; "Pola Dasar Pembangunan Pulau Batam ", in Tim UGM, Pola Dasar Kotamadya Batam. (UGM 1993), p 3. In fact, BIDA strongly supported the attendance of Batam property developers at the Real Estate 90 Exhibition, and BIDA officials actually watched as Singaporeans handed over deposits. Straits Times, 6 January 1990. Tempo, 8 May 1993.

<sup>261</sup> Various Interviews on Batam, October 1994.

<sup>262</sup> See respectively, Merdeka, 2 September 1994. Suara Pembaruan, 10 May 1995. KTP reportedly cost Rp250,000. Bisnis Indonesia, 21 April 1994.

<sup>263</sup> Kompas, 13 May 1994.

<sup>264</sup> Bisnis Indonesia, 20 July 1993.

<sup>265</sup> Suara Karya, 31 May 1991.

<sup>266</sup> The Board of Management of Golkar Pusat gave authority to Golkar Riau to settle the very public dispute which began in December 1993. The composition of the board was changed and Bambang was relegated to deputy chairman and an outsider brought in as Chairman. Antara, 29 January 1994. Kompas, 16 May 1994. Kompas, 13 June 1994. Jakarta Post, 15 June 1994.

There is no doubt that many regulatory areas on Batam are in need of improvement, and there have been ongoing efforts to harmonise regulations and procedures. Already new procedures and improvements in service have been introduced, and most processes can now be completed on Batam. With offices in Jakarta and Batam, BIDA has the authority to process all investor applications, is active in promotion, assists with site selection and allocation, manpower recruitment and documentation processing.<sup>267</sup>

Several improvements have been made through internal changes and reorganisation within BIDA. One regulation strengthened the legal basis of BIDA and the Batam Island Industrial Area.<sup>268</sup> Reorganisation of BIDA also saw personnel changes. The position of BIDA Vice-Chairman, scrapped in 1981, was re-introduced with the appointment of Junior Minister of Industry, Tungky Ariwibowo, to the position.<sup>269</sup> BIDA Chief Executive, Soedarsono Dharmasoewito, was replaced in late 1988 by Marsekal Pertama Soepandi, who in turn was succeeded by Soeryohadi Djatmiko, both former adjutants of President Soeharto, and reportedly stronger administrators.<sup>270</sup>

One example of regulatory and bureaucratic improvements concerns the measures taken by BIDA to curb land speculation on Batam. One of the main selling points of Batam was that it offered investors abundant and cheap land. However, land was neither cheap nor was it easily obtainable, a situation created primarily by land speculation. By 1990, already nearly two-thirds of available land parcels on Batam had been taken up by investors, and prospective investors began finding land difficult to obtain.<sup>271</sup> By 1995, the lack of availability of land was being given as the major cause for low realisation rates of foreign investment, for many investors with investment licenses were unable to obtain sites for their projects.<sup>272</sup> At the same time, however, it was obvious that there was still much vacant land on Batam. According to Gunawan Hadisusilo,

It is difficult to say whether or not there is still land available on Batam. It is said there is, but it has already been taken up. It is said there isn't, but there is still much vacant land.<sup>273</sup>

<sup>267</sup> Pannell Kerr Forster ; BATAM : An investment and tax profile, (Singapore 1990) , p8-9.

<sup>268</sup> Keputusan Presiden No.58 1989 (24 November 1989) incorporated the changes made by Keputusan Presiden No.45 1978 to Keputusan Presiden No.41 1973. In 1992, BIDA removed several government agencies from Batam, including those from the BKPM and the departments of Tourism and Industry, creating its own sub-directorates to manage those areas. Bisnis Indonesia, 17 July 1992. In 1994, in a further effort to improve services for investors, a new division was created within BIDA to manage all matters to do with land, replacing a system requiring investors to seek out several different sections. Bisnis Indonesia, 10 September 1994. Permits, such as those for expatriate personnel, can also be obtained directly through BIDA. Pannell Kerr Forster ; BATAM : An investment and tax profile (Singapore 1990), p26.

<sup>269</sup> Keputusan Presiden No.59 1989 (24 November 1989).

<sup>270</sup> Suara Pembaruan, 18 June 1988. Suara Pembaruan, 24 November 1988. Indonesia Development News, January/February 1989, p 12. It should be noted, however, that despite being removed, Soedarsono has remained influential on Batam, and is currently senior adviser to Habibie.

<sup>271</sup> Construction Industry Development Board ; Batam Outlook 1990, (Singapore, June 1989), p 6.

<sup>272</sup> Forum Keadilan, 11 September 1995.

<sup>273</sup> Bisnis Indonesia, 11 January 1995.

The primary cause for this situation was that many developers and investors, both foreign and domestic, were land speculators who had no intention of carrying out their proposed projects. Not only have they hindered efforts by serious investors to obtain land but they contributed to the sharp increase in the cost of land on Batam, further scaring off potential investors. Faced with an estimated 380 stalled projects in 1995, BIDA began to take several important measures to prevent land speculation, and to guarantee the provision of cheap and easily obtainable land.<sup>274</sup> Habibie insisted that passive investors who were not truly serious about carrying out their projects must leave Batam Island because they were hindering the development process.<sup>275</sup>

There is no room for speculation on Batam. They are the reason for the high cost economy which is damaging Batam Island.<sup>276</sup>

An early measure shifted land decisions away from BIDA's Batam office to the Jakarta headquarters, thus removing a possible locational source of patronage.<sup>277</sup> Another change was the decision to revoke investment licenses and land permits of passive investors, albeit on a selective basis - BIDA warned between 100-200 investors and revoked 18 licenses in the first half of 1995.<sup>278</sup> A recent regulatory change requiring investors to provide a bank guarantee to the value of 2.5% of total long-term rent, which investors lose if they have not realised their projects within 12 months, should go some way to curbing speculation, as well as help to shorten the current waiting list.<sup>279</sup>

A shortage of available land was also one of the motivations for the June 1992 Presidential Decree which substantially expanded BIDA's working area and the bonded zone on Batam Island to adjacent surrounding islands.<sup>280</sup> The area has become known

<sup>274</sup> Bisnis Indonesia, 16 March 1995. Kompas, 21 July 1995. The exact figures vary, but in 1992 at least six investors had their licenses revoked. A figure of six is given in Media Indonesia, 4 January 1994. A figure of seven is given in Media Indonesia, 15 December 1993. A figure of nine is given in Media Indonesia, 1 July 1992. See also Asiaweek, 31 July 1992, p54. In 1993, BIDA revoked licences for 10 businesses on Batam Island, including for a Japanese toy doll factory, Kwang Hwa Industrial Estate and domestic property developers. Media Indonesia, 15 December 1993. Media Indonesia, 4 January 1994.

<sup>275</sup> Pelita, 30 June 1992. Merdeka, 1 July 1992.

<sup>276</sup> Kompas, 21 July 1995.

<sup>277</sup> Mari Pangestu ; "An Indonesian Perspective" , in Lee Tsao Yuan (ed) Growth Triangle : The Johor-Singapore-Riau Experience , p103. BIDA has also begun enforcing regulations which require investors to report their activities, not only to prevent sleeping investors but to get information about exactly how much investment had been realised, how many workers were being employed and other market information. In 1994, as many as 157 investors (107 PMA and 50 PMDN) were reprimanded for neglecting to report their activities, and threatened with license revoke. Attempts have also been made to set work schedules and completion dates in order to speed up development and curb land speculation. Kompas, 24 June 1994. Kompas, 19 July 1994.

<sup>278</sup> Bisnis Indonesia, 16 March 1995. Kompas, 21 July 1995. The exact figures vary, but in 1992 at least six investors had their licenses revoked. A figure of six is given in Media Indonesia, 4 January 1994. A figure of seven is given in Media Indonesia, 15 December 1993. A figure of nine is given in Media Indonesia, 1 July 1992. See also Asiaweek, 31 July 1992, p54. In 1993, BIDA revoked licences for 10 businesses on Batam Island, including for a Japanese toy doll factory, Kwang Hwa Industrial Estate and domestic property developers. Media Indonesia, 15 December 1993. Media Indonesia, 4 January 1994.

<sup>279</sup> Bisnis Indonesia, 23 February 1995.

<sup>280</sup> Keputusan Presiden No.28/1992 (19 June 1992.)

as Bareleng, an acronym for Batam-Rempang-Galang. The official reason given for the extension of BIDA's working area, with automatic status as an industrial and bonded zone, was that the available industrial area on Batam was limited.<sup>281</sup> According to BIDA Chief Executive, Djatmiko, development on Batam had reached almost 40% of its total capacity, so that in order to anticipate continued interest in the area, Batam was extended to Bareleng.<sup>282</sup>

The most apparent difficulty facing the Batam Island project is the lack of inter-ministerial coordination. It is clear that the government apparatus assigned to develop Batam does not have one voice, and that different government agencies and departments lack coordination. This is particularly true between BIDA and central government agencies. A typical view is that,

Each government department still thinks and acts [separately]...They are not yet coordinated.<sup>283</sup>

For instance, in 1991 a misunderstanding between the State Secretariat and the BKPM over the amount of foreign ownership required for Batam projects delayed the processing of 12 investment applications with a total combined investment of US\$15m. until a compromise could be reached between the two bodies. The BKPM followed regulations requiring foreign companies to divest 5% ownership within five years, whilst the State Secretariat felt that foreign companies should own entire projects if their investment commitment totalled less than US\$1m.<sup>284</sup>

One reason given for the lack of harmonisation and coordination was that ministers had not sat in a session of the Badan Pengawas Pengembangan Daerah Industri Pulau Batam (Batam Island Industrial Area Supervisory Board). The Board, headed by the Coordinating Minister for Economics and Finance, was created in 1973 to synchronise government agency policies linked with the development of Batam Island.<sup>285</sup> However, the Board has never met; Radius Prawiro, a minister for more than twenty years, was never even approached to sit on the Board.<sup>286</sup> Despite the requirement for policy decisions to be coordinated by BIDA and the Batam Supervisory Board, in practice most policy decisions are made by Habibie in concert with the relevant minister or

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<sup>281</sup> Bisnis Indonesia, 1 July 1992. BIDA ; Business Directory - 22 years Batam Industrial Development Authority (November 1993), p 19.

<sup>282</sup> Media Indonesia, 4 January 1994.

<sup>283</sup> Antara, 5 November 1982. For instance, the setting of taxes required a joint decision from BIDA, Customs, Communications, Finance and local government.

<sup>284</sup> Business Times, 26 July 1991.

<sup>285</sup> Antara, 5 November 1982.

<sup>286</sup> Interview with Radius Prawiro, 29 July 1994. Interestingly, in 1980 BIDA published three interviews with members of the Supervisory Board, including Drs Radius Prawiro, Minister of Trade and Cooperatives, Prof. Dr. Emil Salim, Minister of State for Environment and Development Control, Mr Barli Halim S.E., Chairman of BKPM. BIDA ; The Batam Development Program (Jakarta, July 1980).

ministers on a case-by case basis, purportedly because logistics make it difficult to gather together all the senior ministers represented on the Board.

Policy formulation for Batam Island is essentially carried out in one of two ways. Firstly, by way of direct Presidential orders and directives to ministers, but these are rare and generally only required when all other routes have failed. Secondly, policy changes are initiated by Habibie in concert with the appropriate or relevant minister. For major policy initiatives, Habibie's tactic is to take the relevant minister to Batam for direct contact. Habibie prefers monthly inspections of work-in-progress held concurrently with coordinating meetings with representatives of local government, ministers where applicable, representatives from various agencies, as well as visiting ambassadors and businessmen.<sup>287</sup> This is most successful where changes require the input of only one minister, and is done on an *ad hoc* basis.<sup>288</sup>

A number of improvements and policy changes made in conjunction with relevant ministries in Jakarta have resulted from this approach. Together with the Ministry of Finance, a four-hour documentation service for customs clearance was introduced in 1990, cutting the processing time from more than two weeks.<sup>289</sup> Cooperation with the Singapore government and the Indonesian Minister for Justice resulted in the introduction in 1991 of the 'smart card', a computerised immigration process allowing frequent travellers to pass through Immigration and Customs counters without stopping, thus helping to reduce the hassle of commuting and travelling between Singapore and Batam.<sup>290</sup> The Manpower Ministry, under pressure from BIDA, changed regulations governing the hiring of foreign expatriates on Batam Island in 1992, after companies claimed that they needed access to expertise not available in Indonesia.<sup>291</sup>

However, whilst coordination is sometimes very close between Habibie and a particular Minister, agreement can sometimes be hard to reach with other Agencies and Ministers. The official enactment of the Barelang project in June 1992 came more than twelve months after it was first announced in May 1991 because it required negotiation with the provincial government and several ministries in Jakarta. The reason was clear -

<sup>287</sup> A. Makmur Makka ; *BJH : His Life and Career* (Cipta Kreatif, Jakarta 1989), p 126. *Suara Pembaruan*, 13 September 1994. Interview with Gunawan Hadisusilo, 10 August 1994. Interview with Oemar Lubis, 12 August 1994. Interview with Halomoan Panjaitan, 1 September 1994.

<sup>288</sup> Interview with Soedarsono, 6 October 1994.

<sup>289</sup> *Kompas*, 2 August 1990. *Suara Pembaruan*, 2 August 1990. *Pelita*, 2 August 1990. *Far Eastern Economic Review*, 3 January 1991. Interview with Gunawan Hadisusilo, 10 August 1994.

<sup>290</sup> The Smart Card System was developed by Singapore Computer Systems, a subsidiary of STIC. *Far Eastern Economic Review*, 3 January 1991. *Suara Pembaruan*, 8 October 1991. *Kompas*, 11 October 1991. It was estimated that around 2,000 smart cards had been issued by mid-1994, and the government was considering extending the smart card system to all of Batam's ports and to the neighbouring islands of Bintan and Karimun. Those entitled include : KIMS holders, holders of multiple entry visas for Batam and Bintan, members of golf and marine clubs in the islands, and local inhabitants of Batam, Bintan and Karimun. *Straits Times*, 2 May 1994. *Kompas*, 3 May 1994.

<sup>291</sup> *PR Newswire*, 6 July 1992. Reuters Textline 06Jul92.

Pemda Riau disliked losing administrative control over the islands; Rempang Island, which had been set aside for game tourism, was under the administration of the Ministry of Forestry; and Galang Island, home to over ten thousand Indo-Chinese refugees in camps managed by the UNHCR (United Nations High Commission for Refugees), was under the administration of the Ministry of Defence and Security.<sup>292</sup> In particular, Habibie's suggestion in April 1992 that the refugees be given Indonesian nationality, was met with strong objection, and suggestions that he delay the Bareleng project until the refugees had been repatriated.<sup>293</sup> It is expected that the last of the refugees on Galang, which has been home to an estimated 248,000 boat people since 1976, will be repatriated by the end of 1996.

Other regulatory changes have been even harder to elicit from Jakarta. It took more than twelve months after Habibie's first request, for the Minister of Finance to grant an exemption from PPN Dalam Negeri (value-added tax) for goods entering Batam from inside Indonesia (they are exempted from outside Indonesia), despite the fact that relief from the tax would increase links to the domestic economy, since most businesses bringing in goods from within Indonesia shipped them to Batam via Singapore in order to avoid the tax. Habibie's request for tax holidays for companies investing on Batam received little, if any, support from the same Ministry.<sup>294</sup>

BIDA's success in seeking changes to two areas of land laws on Batam were mixed. The first concerned the land lease period offered to investors, and the second to laws barring foreign-ownership of property on Batam. Until very recently, investors on Batam had been confined to leasing land for a 30 year period, extendable for 20 years with the possibility of a further renewal of 30 years. The somewhat tenuous and bureaucratic nature of this regulation led not only to complaints from existing investors but also made it difficult for Batam to attract new investors who felt that such brief land tenure would not provide them with enough time to recoup their investments.<sup>295</sup>

Chairman of the BPN (Badan Pertanahan Nasional or National Land Agency), Soni Harsono, the key to any change in land lease periods, however, firmly adhered to Indonesia's existing land laws - the Agrarian Law, a nationalistic law based on Paragraph 33 of the 1945 Constitution guarantees that all natural riches are for the

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<sup>292</sup> Suara Karya, 31 May 1991. Suara Pembaruan, 21 July 1992. Interview with Gunawan Hadisusilo, 10 August 1994.

<sup>293</sup> Indonesian Observer, 21 April 1994. Jakarta Post, 27 April 1994. Straits Times, 12 May 1992.

<sup>294</sup> Kompas, 12 July 1994. Kompas, 15 July 1994. Bisnis Indonesia, 27 December 1994. Surat Keputusan Menteri Keuangan No.548/KMK.04/1994.

<sup>295</sup> Straits Times, 9 May 1992. In addition, many foreign investors found it difficult to obtain loans from banks because the lease period was too short and could not be used as a bank guarantee. For instance, bankable projects in Singapore must have at least a 60 year land rental period. Kompas, 25 July 1994.

Indonesian people - and steadfastly refused any exceptions to the laws or amendments specifically for Batam.<sup>296</sup>

Faced with Soni Harsono's refusal to change existing laws, and under pressure from several vocal groups on Batam, especially Kadin Batam, REI, the Batam Mayor and Indonesian Ambassador to Singapore, Soedibyo Rahardjo, BIDA was forced to be imaginative in its application of land laws.<sup>297</sup> A loophole was found in existing regulations whereby investors could pay land rental for 80 years, essentially creating a land lease period of 80 years and guaranteeing extension of land permits for that period. The regulation applied to all new leases, providing investors with a choice of three lease periods - 30, 50 or 80 years - with existing investors required to meet certain conditions before obtaining the extension.<sup>298</sup>

The real estate and property sector had been in a depressed state since 1991, and slow sales of property continued to hurt developers on Batam - at least 3,000 luxury houses priced between Rp150-500m. remained unsold in mid-1994.<sup>299</sup> Most resort owners, property developers and other groups believed that the decision to provide longer land lease periods on Batam needed to be followed up with changes allowing foreigners to own property if an end was to be brought to the continuing recession of the market, and sought to have the regulations banning foreigners from purchasing property changed, at least for Batam Island.<sup>300</sup>

The strongest lobby came from the REI, which represents real estate developers in Indonesia.<sup>301</sup> REI was of the opinion that the real estate situation on Batam was determined by, and dependent on, government policy concerning foreign property ownership, and that if the government allowed foreign ownership the real estate and property market would pick up.<sup>302</sup> Not everyone, however, sympathised with the real

<sup>296</sup> Interview with BIDA Executive, August 1994.

<sup>297</sup> For comments by Kadin Batam see *Kompas*, 27 June 1994 and *Kompas*, 8 October 1994. On calls from REI see *Bisnis Indonesia*, 15 June 1991. For comments by the Mayor see *Suara Karya*, 4 October 1993. On the Indonesian Ambassador see *Kompas*, 15 July 1994.

<sup>298</sup> *Bisnis Indonesia*, 28 March 1995. *Merdeka*, 8 April 1995. *Kompas*, 12 June 1995. *Reuter News Service*, 12 June 1995. *Straits Times*, 13 June 1995. *Business Times*, 13 June 1995. *Business Times*, 14 June 1995.

<sup>299</sup> *Kompas*, 14 May 1994. *Kompas*, 27 June 1994.

<sup>300</sup> It is too early to tell if developers will apply for the extension of current leases on behalf of foreign home owners, who can only extend leases through original developers since they essentially are sub-leasing from developers. For details of the policy see *Straits Times*, 13 June 1995. *Business Times*, 13 June 1995. *Business Times*, 14 June 1995.

<sup>301</sup> On Batam there are more than 100 developers, half of which are domiciled there, and most are members of REI. *Kompas*, 14 May 1994. *Kompas*, 27 June 1994.

<sup>302</sup> *Media Indonesia*, 8 April 1994. The Chairman of REI, Lukita, argued that allowing foreigners to buy houses in Indonesia would not be damaging because the houses could not be carried back to their home countries. *Media Indonesia*, 9 July 1993. Besides restrictive land and housing laws, interest in the real estate and property sector on Batam was also retarded by stiff competition from overseas property markets, inadequate infrastructure and bad press over poor-quality projects. In Singapore, the Batam property business continues to suffer from bad publicity, despite claims by a number of Indonesian property businesses that the bad publicity was due to the efforts of a few Singaporeans to blacken the housing business on Batam. *Kompas*, 25 July 1994. In mid-1994, Singaporean

estate developers, and many questioned their motives. For instance, the Chairman of REI was criticised for appealing to the government to re-evaluate the principles of the Agrarian Law because he was motivated by his own business interests on Batam.<sup>303</sup>

On the changes to foreign property-ownership in Indonesia, Soni Harsono and other ministers were more forthcoming, although the policy processes were drawn out.<sup>304</sup> The President's own attitude was that whilst he agreed that changes needed to be made to the law, the immediate national priority was low-cost housing.<sup>305</sup> It was always unlikely that any substantial changes would be made to the Agrarian Law and in the case of housing, changes to the Agrarian Law were avoided by the issuance of a government decision allowing foreign property-ownership for an extendable 25-year period nationally.<sup>306</sup>

There is no doubt that attempts have been made to continuously improve policies and regulations in order to raise the power of attraction of Batam to foreign investors. Despite a propensity to maintain an economic nationalist structure on Batam, Habibie has been far more responsive to the needs of foreign investors than during the 1980s, at least in certain areas. At times he sounds like a market economist, saying that it was best if the government did not get too involved or overly regulate investors on Batam Island, and simply allowed the private sector to regulate itself.

What is most important for business is that the government only acts as a supervisor and as a fair referee.<sup>307</sup>

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newspapers carried stories of more than 200 buyers refusing to sign legal documents for the completion of sale of their new Batam properties, despite having already paid 95% of the price, because of defects in the houses in the two estates - Rosedale and Citra Batam, both built by a joint venture between Econ Properties of Singapore and PT Igata Jaya Perdana of Indonesia. Despite being completed more than 400 days behind schedule, the houses reportedly had leaking roofs, poorly-fitting doors, missing or broken roof tiles and window panes, and even termite infestations. The Indonesian embassy was forced to hold a special two-day exhibition in Singapore to try to counter negative impressions from the complaints. *Straits Times*, 15 July 1994. *The Sunday Times*, 17 July 1994. *Straits Times*, 18 July 1994.

<sup>303</sup> See letter to the editor "Foreigners and land" *Jakarta Post*, 7 April 1994. In many cases, it is clear why certain developers have called for change. It is public knowledge that a great deal of real estate was meant solely for foreign buyers, and thus has not been sold. For instance, Sinar Mas had problems selling its condominiums because of weak domestic demand. *The Jakarta Post*, 10 November 1992.

<sup>304</sup> Under existing law foreigners could not own houses or land, were only allowed to use a building for a period of 10 years, and could not use this as a bank guarantee. However, in December 1993, President Soeharto agreed in principle to let foreigners buy and own apartments in Indonesia. With the strong support of the State Minister for Housing, Akbar Tanjung, a draft law which would allow foreigners to use and build on land for 25 years and use it as collateral for bank loans, was discussed by various ministries including those of Justice, Housing and Agrarian Affairs, as well as the DPR. The main component of the bill would extend the period expatriates could use buildings in Indonesia to 25 years. *The Jakarta Post*, 26 March 1994. *Jakarta Post*, 28 March 1994. *The Jakarta Post*, 23 April 1994.

<sup>305</sup> Interview with REI Chairman, Enggartiasto Lukita, 9 August 1994.

<sup>306</sup> *PP No.41/1996* (17 June 1996). That the decision coincided with the launch of a joint Indonesia-Singapore project on Bintan Island led to speculation that it was aimed to attract Singaporeans to Batam and Bintan Islands. *Jakarta Post*, 19 June 1996. *Reuter News Service*, 23 June 1996. Reuters Textline 23Jun96. *Reuter News Service*, 28 June 1996. Reuters Textline 28Jun96.

<sup>307</sup> *Suara Pembaruan*, 2 March 1990.

However, the cost of wages on Batam has been a major point of contention between the Indonesian government and foreign investors.<sup>308</sup> Despite being promoted as a low-wage centre, the daily minimum wage on Batam has increased considerably since 1989, making wages on Batam the highest in Indonesia. In 1996, the wage was to be raised to Rp 8,400, well up from Rp 2,450 in 1989.<sup>309</sup> The harshest reaction to the now almost annual wage rises came from Singapore Senior Minister, Lee Kuan Yew, who warned that the development of Batam Island must take into account the increasing competitiveness and attractiveness of China and Vietnam, and that any artificial raising of wages which ignores regional market forces, could affect Batam's competitiveness.

If, as a result of misjudgment, they up wages artificially in Bintan or Batam, they will price investors out.<sup>310</sup>

Perhaps the most outspoken observer in recent years was Indonesian Ambassador to Singapore, Soedibjo Rahardjo, who consistently complained that foreign investors were hampered by the regulatory environment on Batam, and over the years called for more deregulation in almost every sphere of economic activity.<sup>311</sup> Many industry associations, too, have had their say on regulations and bureaucratic procedures on Batam, particularly those of relevance to the industry they represent.

PHRI has been important in influencing the development and growth of tourism on Batam Island, its influence increasing with the importance of tourism to the national economy in general. PHRI was successful, through heavy lobbying, in decreasing the number of regulations and permits needed from different agencies in the operational running of a hotel on Batam Island. Where a three-star hotel once had to meet more than 20 regulations, and obtain almost as many permits on a yearly basis from different agencies, only one permit issued by the Directorate-General of Tourism's representative on the island, is now required.<sup>312</sup> However, whilst PHRI's local chapter works closely with BIDA in correcting problems, the industry is not involved in overall planning.

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<sup>308</sup>The Indonesian government claims that the increases are minimal, that they must be implemented because of higher living costs on Batam Island, and were needed to meet minimum daily physical needs. For investor complaints see *Sunday Times*, 5 December 1993. *Straits Times*, 1 January 1994.

<sup>309</sup>The previous level was Rp 7,500. *Business Times*, 6 December 1995. In October 1990, the daily minimum wage of an unskilled worker on Batam Island was raised from Rp 2,450 to Rp 5,500, making it the highest rate in the country. *The Jakarta Post*, 2 October 1990. In October 1993 it was raised to Rp 6,750. *The Jakarta Post*, 12 June 1993. In fact, recent wage increases have meant that workers receiving the minimum wage are hit by income tax. Income tax (PPH - Pajak Penghasilan) must be paid on income over Rp144,000 a month. *Republika*, 19 August 1995.

<sup>310</sup>*The Straits Times*, 3 December 1993. *Kompas*, 4 December 1993. The Governor of Riau responded that the scheduled increase in the minimum wage for workers on Batam Island was necessary and had been prompted by various factors, including the higher cost of living on the island, adding that Singapore had no need to be concerned about the increase as it was in keeping with existing 'developments and the environment' on the island. *The Straits Times*, 9 December 1993.

<sup>311</sup>See for instance *Kompas*, 27 May 1994.

<sup>312</sup>Interview with Senior Official of PHRI, 11 August 1994.

PHRI believes that this has meant that the development of tourism remains very much an unplanned economic activity.<sup>313</sup>

REI has been a vocal proponent of changes to Indonesia's land laws, ranging from the extension of land lease periods to the allowing of foreign ownership of commercial and residential properties. REI has made several submissions to the government about changing land regulations on Batam. Its strategy has been to find loopholes in existing laws. REI has had some success in influencing land regulations on Batam, and it coordinates closely with BIDA on certain issues.<sup>314</sup> Other groups, such as the Indonesian Managers Association, have called on the government to simplify bureaucratic procedures on the island, and to allow foreigners to buy houses on Batam.<sup>315</sup> KADIN Batam has also been outspoken on similar issues.

Indonesia has certainly made it a point to highlight the cheap and abundant labour supply, the liberal tax and investment policies unique to Batam Island, the abundance of cheap land, and the close proximity to Singapore's excellent infrastructure facilities and support services network.<sup>316</sup> However, despite those advantages, Batam could very well be losing ground to its competitors. For instance, manufacturers continue to cite expensive rentals, utilities, freight charges and other 'unforeseen costs'. According to one business executive,

Bad management of Batam is one of the main reasons for such an unfortunate situation.<sup>317</sup>

Many manufacturers who have set up on Batam Island lured by cheap operating costs, have expressed concern that Batam Island may lose its competitive edge over emerging rivals such as Vietnam and China.<sup>318</sup> It is reported that Japanese investors are discouraged by Indonesia's current investment guidelines and regulations on Batam, and there have been claims that Japanese companies are not investing on Batam because land rental is too high.<sup>319</sup> Most investors stress that Batam Island's costs should not be seen in comparison with Singapore, but in the context of other low-cost competing manufacturing centres.

However, in the face of complaints about inadequate infrastructure, restrictive regulations and red tape, BIDA blames any problems on inadequate feasibility studies

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<sup>313</sup> Interview with Senior Official of PHRI, 11 August 1994.

<sup>314</sup> Interview with senior REI Official, Enggartiaso Lukita, 9 August 1994.

<sup>315</sup> The Jakarta Post, 10 November 1992.

<sup>316</sup> See for example, Investors and Tourists Guide to Batam Island, Indonesia, (BIDA 1991 Jakarta).

<sup>317</sup> Nikkei Weekly, 3 April 1995. Reuters Textline 03Apr95.

<sup>318</sup> Business Times, 11 September 1992. Reuters Textline 11Sep93.

<sup>319</sup> Indonesia Business Weekly, Vol.11 no.6, 21 January 1994. Bisnis Indonesia, 19 January 1995. For instance, a newly opened industrial park in Johor has a monthly rent of half of that of Batamindo. Nikkei Weekly, 3 April 1995. Reuters Textline 03Apr95.

on the part of foreign investors and the state of the world economy, and tells firms to begin operations or lose their licences. This comes amid recent reports that many foreign companies are pulling out of Batam, cancelling projects or putting them on hold.<sup>320</sup>

It is clear that the Batam experience demonstrates that boosting economic and industrial development is not hurdle-free.<sup>321</sup> More than one observer has called for a rethink of policies for Batam, especially the high-tech aims and other strict conditions placed on investors, such as land policies. With a fall in foreign investment in 1994, the government has taken several measures to improve conditions for investors but, as pointed out in an editorial in *Bisnis Indonesia*, "big steps and new policies" are needed to make Batam more attractive.<sup>322</sup> This will be crucial in order for Indonesia to achieve the aim of securing US\$17 billion worth of investment commitments in the Bareleng area by 2006, triple the current level of US\$5 billion.<sup>323</sup>

Batam will need major improvements if it is to retain its attractiveness and competitiveness. These include infrastructure development, new regulatory changes, as well as bureaucratic transparency and consistency. They are the keys to the success of development on Batam, for it is industrial growth which will be the catalyst for growth in other areas such as construction, services and tourism. These changes, and the overall development of Batam, depend on important decisions being made by the Indonesian government in Jakarta.

Whilst intervention from the central government is already fairly large, the problem is due more to poor coordination between different government agencies. It is clear that the Indonesian government lacks a coordinated approach, a grand design. In fact, Batam and the surrounding islands fall under different governing agencies, which has led to poor planning and coordination. Quite clearly the development of Batam cannot be separated from developments at the national level - economic, political and social.

### **Local Government on Batam**

The administrative set-up of Batam Island is unique within Indonesia. Two bodies, BIDA and the Kotamadya Batam, both play important roles in the administration of the island. The respective roles of BIDA and the Kotamadya Batam are defined under a 1984 Presidential Decree which states that BIDA is the administrator of development

<sup>320</sup> *Nikkei Weekly*, 3 April 1995. Reuters Textline 03Apr95.

<sup>321</sup> *Economic and Business Review Indonesia* No.92, 15 January 1994.

<sup>322</sup> *Bisnis Indonesia*, 17 March 1995.

<sup>323</sup> *Straits Times*, 18 May 1995.

and the Kotamadya oversees social and administrative affairs. Despite the fact that legislation is clear about the jurisdiction of the two authorities, the existence of two bodies has created a number of problems, most particularly at the implementation stages.

There is no doubt that BIDA is the stronger of the two bodies. Not only does BIDA report directly to the President and have independent sources of funds in addition to being funded directly from the central government's budget, but BIDA was created at a time when government departments and local government on Batam Island were either weak or non-existent.<sup>324</sup>

There is concern that the Kotamadya, while retaining social and administrative functions, is not considered in overall planning and that local and regional interests take second priority. Whilst it is said that there are regular coordinating meetings between Pemda and BIDA - Habibie insists that all interested parties, including the Riau provincial government, are heavily involved in planning Batam's development - it is clear that coordination between the two bodies remains weak, attributable to poor communication and power plays.<sup>325</sup>

For the Kotamadya, the problem is not just that its authority and powers are fairly ambiguous but that BIDA can override it regardless. BIDA's far-reaching influence into seemingly trivial matters provides quite a contrast to the lack of power of the local administration. That BIDA often provides contributions to the Kotamadya when its own budget allows, makes it clear that it is the more authoritative.<sup>326</sup> A common view is that the mayor's responsibility is no more than to issue KTP (identity cards).<sup>327</sup> According to Batam Mayor, Aziz, the few areas that remain untouched by BIDA's authority do not automatically come under the jurisdiction of the Governor of Riau or the Mayor of Batam.

We are all unclear about our authority, so I often use my personal discretion in governing.<sup>328</sup>

Whilst there are examples of synchronisation - BIDA and the Kotamadya agreed to jointly build 5,000 units of low-cost housing on Batam<sup>329</sup> - those of poor coordination are far more common. One glaring example involved the drowning of 43 Indonesian

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<sup>324</sup> Little comparison can be made with the Asahan Authority, which was established to supervise Japanese involvement in the Asahan Hydroelectric Dam project in North Sumatra. Interview with former Chairman of the Asahan Authority, Soehoed, 29 August 1994. For details see Takeshi Kohno ; The Asahan Hydroelectric and Aluminium Development Project in Indonesia (M.A. Thesis, Ohio University, March 1992).

<sup>325</sup> Republika, 19 May 1993.

<sup>326</sup> Suara Pembaruan, 13 September 1994.

<sup>327</sup> Business Indonesia, 21 April 1994.

<sup>328</sup> Media Indonesia, 11 May 1993.

<sup>329</sup> Antara, 20 October 1992.

fishermen off the coast of Batam when both BIDA and the Kotamadya failed to act, each claiming the responsibility to be the others.<sup>330</sup> On occasion, the Kotamadya is even blamed for BIDA decisions - the local community aimed their protests against the licensing of a new entertainment venue at the Kotamadya when in fact the decision had been made by BIDA.<sup>331</sup>

In the late 1980s and early 1990s, several moves were taken to raise the profile and role of Pemda Riau on Batam. Strongest support came from the Ministry of Home Affairs which, following long-standing complaints from the Riau provincial government and its officials on Batam that their authority and jurisdiction had been marginalised because of the presence of BIDA, took several measures to strengthen civil administration on Batam. According to then Minister for Home Affairs, Rudini,

What is the point of having the authority that [the Kotamadya] does if it is not able to perform the tasks given to it.<sup>332</sup>

In December 1992, following Presidential approval, Rudini set up a ministerial committee - the Forum Koordinasi Pengembangan Wilayah Batam or Batam Area Development Coordination Forum - to coordinate the activities of BIDA and the Kotamadya, and to monitor possible problems arising from the implementation of development policies in the Batam industrial zone, such as social problems, labour, land, housing, resettlement, government and administration.<sup>333</sup> It was planned that the forum would meet every three months, but was soon dissolved when Rudini was not re-appointed to Cabinet in March 1993.<sup>334</sup>

Despite the removal of Rudini, the Ministry of Home Affairs continued to question the role of BIDA on Batam Island. The new Minister for Home Affairs, Yogie S. Memed, sparked a lively debate in mid-1993 when he said that the role of Pemda Riau on Batam is guaranteed by law and must be raised accordingly.

The dual authority must quickly be done away with...The Mayor should become the one and only power in the area.<sup>335</sup>

According to Law No.5 of 1974, concerning the basis of local government, the provincial government, in this case represented by the Kotamadya, is the single government authority responsible for administration, development and social affairs.

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<sup>330</sup> *Media Indonesia*, 11 May 1993.

<sup>331</sup> LIPI ; *Kerjasama SIJORI dalam perspektif kepentingan nasional Indonesia*, p 82.

<sup>332</sup> *Suara Pembaruan*, 13 September 1994.

<sup>333</sup> The first meeting was held on 10 December 1992. *The Straits Times*, 11 December 1992. *Angkatan Bersenjata*, 23 January 1993.

<sup>334</sup> Interview with Rudini, 9 August 1994.

<sup>335</sup> *Antara*, 7 May 1993.

However, both in practice and on the basis of the 1984 Presidential Decree, the Kotamadya is responsible only for administration and social affairs, whilst BIDA is responsible for development.<sup>336</sup> Minister Yogie called on Pemda Riau to take the initiative in asserting both itself, as well as its role, as development and administrative coordinator on Batam in the spirit of the law. According to Yogie,

The function of the regional government should be revived to eliminate the impression that there is dualism of power on Batam.<sup>337</sup>

Yogie also called for measures which would help resolve both poor coordination and confusion arising from the existence of two authorities operating on Batam, including the appointment of a senior official from Pemda Riau to the managing board of BIDA, as well as quarterly co-ordination meetings between the Kotamadya and BIDA. The Minister did, however, warn Pemda Riau not to act arbitrarily when it eventually regained its status as the sole authority.<sup>338</sup>

The Governor of Riau, Soeripto, was quick to join the debate initiated by Yogie, complaining that parts of his province were not under his authority or responsibility and calling on the Minister to provide a clarification of the role of Pemda Riau.

Although the government places Bareleng in Riau province, my position as single authority does not cover that area. In fact, I am a junior member of the BIDA Committee which manages Bareleng.<sup>339</sup>

Yogie's comments also provoked debate within the DPR, particularly about the legal status of BIDA. One member of DPR called for the strengthening of Pemda because it had secure legal status - it was created by law, and BIDA only by Presidential Decree.<sup>340</sup> The Chairman of DPR Komisi X, Marcus Wauran, went further claiming there were only two choices - either get rid of BIDA because its role was not recognised by Law No.5/1974, or change that law so as to accommodate BIDA.<sup>341</sup> In addition, the Chairman of DPD-Golkar (Dewan Pimpinan Daerah Golongan Karya), Bambang Sujagad Susanto, revived calls for the creation of a regional legislative assembly for Batam Island in order to accommodate the people's aspirations.<sup>342</sup>

<sup>336</sup> Interview with Gunawan Hadisusilo, 10 August 1994.

<sup>337</sup> *Jakarta Post*, 10 May 1993.

<sup>338</sup> *Pelita*, 8 May 1993. *Republika*, 8 May 1993. *Jakarta Post*, 10 May 1993. *Suara Pembaruan*, 10 May 1993. *Angkatan Bersenjata*, 10 May 1993. *The Straits Times*, 11 May 1993. *Kompas*, 13 May 1993.

<sup>339</sup> *Media Indonesia*, 11 May 1993.

<sup>340</sup> *Media Indonesia*, 17 May 1993.

<sup>341</sup> BIDA was created before UU No.5/1974 concerning the basis of local government. *Media Indonesia*, 19 May 1993.

<sup>342</sup> *Merdeka*, 13 December 1993.

There were, however, some dissenting voices. Some viewed Minister Yogie's comments as an attempt to snatch influence away from Habibie.<sup>343</sup> Others, particularly business circles, expressed anxiety that should Pemda be given too much power, then even the smallest administrative tasks would be surrounded in red-tape. Their argument was a particularly strong one. Decision-making at the national level is perceived as more effective than at the provincial level, and therefore better for investors.

As a unitary state the Indonesian government does not allow provincial governments to carry out independent economic relations with foreign countries or investors. Whilst the provincial government frets about loss of jurisdiction, loss of revenue and loss of control to advance regional interests such as employment and construction contracts and procurement fall-outs, it is most likely that provincial governments and business communities would not have the necessary experience to handle the type of international diplomacy and business dealings which take place in the case of Batam. Despite that, strong support within the local community, Pemda Riau and the DPR has meant that the issue of dualism of authority on Batam will continue to be an important issue on Batam Island.

Dualism of authority has spread to the Bareleng area, the administration set-up of which is yet to be settled. Of the 39 islands included in the Bareleng area, 14 are administratively under the Batam Mayoralty, and the rest part of the Riau Archipelago Regency (Kabupaten Kepulauan Riau), whilst BIDA has right of management of land on six of those islands under the Batam Mayoralty.<sup>344</sup> The Batam Mayoralty desires its jurisdiction be expanded to cover all of Bareleng, and this has the support of Habibie and BIDA, if only to improve coordination.<sup>345</sup> However, there is a need to convince the current administrator, the Kabupaten Kepulauan Riau (Riau Archipelago Regency), which feels that it will lose revenue with the loss of the area.<sup>346</sup> If the reorganisation cannot be achieved, BIDA must contend with coordinating development of Bareleng with both the Kotamadya Batam and the Kabupaten.<sup>347</sup> Overall, the creation of one

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<sup>343</sup> Tempo, 22 May 1993.

<sup>344</sup> Merdeka, 09/01/1993. A decree issued by the Chairman of BPN (Badan Pertanahan Nasional or National Land Agency) in late 1993 cleared up the situation by giving BIDA the right of management of land for all the Bareleng area.

<sup>345</sup> Bisnis Indonesia, 11 July 1994. Pemerintah Kotamadya Batam ; Konsep Pengembangan Wilayah di Kotamadya Batam (Batam, 20 July 1992, p4) in LIPI ; Kerjasama SIJORI dalam perspektif kepentingan nasional Indonesia, p 69. BIDA has been in contact with Mendagri and Dirjen Pemerintahan Umum dan Otonomi Daerah (PUOD) to get support. Bisnis Indonesia, 20 October 1994. Note that according to DPR member, Zamharir, according to the Law on Local Government (UU No.5/1974) an increase of an area must be done with a PP and not a Keppres. Bisnis Indonesia, 29 December 1992.

<sup>346</sup> Interview with Gunawan Hadisusilo, 10 August 1994. According to BIDA, this revenue was only around Rp1m. a year. Bisnis Indonesia, 20 October 1994. Another source put the figure at Rp 2 m. from Rempang Island alone. Suara Pembaruan, 6 September 1994.

<sup>347</sup> Angkatan Bersenjata, 23 January 1993.

administrative area makes sense, particularly if the Bareleng area is to be made a new province in 2006, as is Habibie's plan.

However, the question needs to be asked why Batam's area was expanded when in fact current development is far from complete? The extension of BIDA's working area appears to be an anomaly since BIDA's mandate was to reduce its role and withdraw from Batam, not to expand its role or authority - the extension increased BIDA's working area from 415 sq.km. to 715 sq.km., extended across 39 islands.<sup>348</sup> One reason appears to lie in the creation of projects on Bintan and Karimun Islands under the authority of a different development body responsible to the Ministry of Industry, projects which are in direct competition with Batam Island. (See Chapter Seven).

Just what type of governing authority will develop on Batam in the future is uncertain. Habibie has expressed the notion of giving the Riau Islands the status of a province, and the idea does have some support, particularly from the former Ambassador to Singapore, Soedibyo Rahardjo.<sup>349</sup> According to Habibie,

By [2006], we can liquidate the Batam Authority because Batam will be able to run on its own and we will propose to the President to proclaim this island a province with special status.<sup>350</sup>

How this will be achieved, and which administrative body will be maintained remains unclear. If the idea is to be taken seriously, it may well be that the Indonesian government is happy to let the current situation remain until such time. In the meantime, government administration on Batam appears set to remain uncoordinated and largely ineffective.

### **Habibie's Development Program**

The debate between the technologists, led by Habibie, and technocrats has continued into the 1990s. During this time, Habibie has refined his argument and approach to economic development. What the country needs, says Habibie, is a new comparative advantage in high-technology products. Believing that Indonesia's present export growth industries, such as textiles, clothing and footwear, have only a limited life span, Habibie sees Indonesia's future competitive advantage laying in investment in value-adding high technology and in upgrading human resource skills.

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<sup>348</sup> Batam Island, 415 sq.km. (41,500 ha.), is 67% of Singapore's area, but with the addition of Rempang, 165.53 sq.km. (16,583 ha.), Galang, 80 sq.km. (8,000 ha.), Galang Baru, 32 sq.km. (3,200 ha.), and other smaller islands meant that the Bareleng area now totalled 715 sq.km. (71,500 ha.), equalling 115% of Singapore's area. BIDA ; Bareleng - Development Data up to June 1993 (Jakarta 1993).

<sup>349</sup> Angkatan Bersenjata, 23 January 1993. Kompas, 27 May 1994. Kompas, 16 July 1994. Merdeka, 18 October 1994.

<sup>350</sup> The Jakarta Post, 23 November 1988.

Habibie's focus on high technology has earned him plenty of critics at home and abroad. The technocrats, and international institutions such as the World Bank, prefer a more traditional steady climb up the industrial ladder, with a priority on creating jobs, which requires investment in labour-intensive industries, and in raising labour productivity.<sup>351</sup> The technocrats believe it to be a particularly ambitious strategy because Indonesia's comparative advantages are labour intensive industries.

Batam Island is said to be an integral part of Habibie's development policy, although just what that entails is poorly defined. It is known that Habibie wants to promote technological industries on Batam Island, and so far he has attracted several dozen domestic and foreign companies utilising low-middle technology, mainly in electronics, but beyond that little is known. Habibie has never clearly outlined his high-tech aims for Batam Island. What exists are only vague references to high-technology industries, electronics industries and engineering feats. Soeharto has explained that,

Batam Island will be developed as a high-technology industry centre.<sup>352</sup>

In a speech entitled 'Technology and the Singapore-Johor-Riau Growth Triangle', Habibie only once made reference to technology and judging by the numerous references to infrastructure projects it may have been targeted towards his audience who were engineers. Nonetheless, it is one of very few references Habibie has made regarding his technological aims for Batam Island. According to Habibie,

...the technologies relevant to the future of the triangle are those which will help to increase the physical integration of the three corners of the SIJORI Growth Triangle. They include technologies to build economic infrastructure; transportation - tunnels, bridges, harbours, airports and roads; communications; clean water and energy. They also include the technologies relevant to the development of Batam as an industrial area...Other than electronic components, other downstream industries adding value to raw materials produced nearby could be developed...<sup>353</sup>

Habibie's plan for Batam's development does not envisage the island as a place for relocating low value-added and labour intensive industries from Singapore or any other areas. The favoured industries are non-polluting light, medium or heavy industries oriented towards exports, using skilled labour, low water consumption, medium and high technology such as electrical, mechanical, optical and electronics, with the overall

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<sup>351</sup> The Economist, 19 August 1995. For an outline of Habibie's arguments, see B.J.Habibie ; Pembangunan Berdasarkan Nilai Tambah Dengan Orientasi Teknologi dan Industri, Working Paper No.1, CIDES (Jakarta 1993), as well as the debate which followed in Kompas, specifically the articles by Kwik Gian Gie on 4 March 1993 and by both Umar Juoro and Dipo Alam on 11 March 1993.

<sup>352</sup> Reuters News Service, 11 December 1995. Reuters Textline, 11Dec95.

<sup>353</sup> B.J.Habibie ; Technology and the Singapore-Johor-Riau Growth Triangle, speech delivered to Tripartite Meeting and Seminar on Economic Development in the Growth Triangle and its Environmental Impact (Batam, 8 May 1992).

aim of making Batam a high-tech and high-skilled-labour industrial centre.<sup>354</sup> For instance, the majority of tenants in BIP are involved in the manufacture or assembly of light industrial products such as telecommunications equipment, electronic components for audio and video products, printed circuit boards, integrated circuits and disk drives.<sup>355</sup>

The electronics industry on Batam is a good candidate for investigating how successful Indonesia's strategy to move into high-technology industries has been. It has only been since deregulation in the late 1980s that exports of electronics have increased rapidly. These electronic exports are composed mainly of consumer electronics, components, and industrial electronics.

The electronics industry has been one of the better performing industries on Batam in the 1990s. Approximately 30% of total foreign investment on Batam is in electronics, ranging from sophisticated high-tech assembly and testing operations to simple low-tech and labour-intensive assembly operations, as well as skill-based supporting industries like precision machinery and contract manufacturing.<sup>356</sup> Led by foreign firms, and with the clear majority based in BIP, exports of electronics components increased from nil in 1987 to be worth over US\$245,000 in 1992, just under fifty per cent of total export earnings from Batam Island. (See Table 6.8).

**Table 6.8**

**Export of Electronics Components from Batam Island (in US\$)<sup>357</sup>**

	1987	1988	1989	1990	1991	1992	Jan-Oct 1993
Electronics Component Exports	-	1,613	2,265	16,998	81,245	247,156	435,271
Total Exports	26,817	44,226	52,967	151,457	242,020	564,453	677,995

<sup>354</sup> Interview with Gunawan Hadisusilo, 10 August 1994.

<sup>355</sup> *South China Morning Post*, 17 August 1993. Reuters Textline 17Aug93.

<sup>356</sup> *Bisnis Indonesia*, 27 December 1994. 53% of foreign investment is in industry, 58% of which is in electronics.

<sup>357</sup> BIDA ; *Realisasi Nilai Ekspor di pulau batam, 1986-Okt 1993*.

The impact has been felt nationally. In 1991, exports of electronic components such as integrated circuits and electronic parts from Batam Island amounted to more than half of Indonesia's total.<sup>358</sup> The impact of these electronics companies has also been felt in other areas. PT Bowater Bulk Packaging became the first company on Batam and second in Indonesia to achieve internationally recognised ISO 9002 quality certification in 1995, closely followed by PT Honfoong Plastic Industries. Both are located in BIP.<sup>359</sup>

Despite impressive export figures, it is questionable whether the electronics industry has or will have a major impact on the Indonesian economy. One important issue is that of the development of an indigenous technological capability in the industry. According to Indonesian economists, Thee Kian Wie and Mari Pangestu,

... there is very little connection as yet between building up of indigenous technological capability and export growth as in most cases the foreign partner is in control at the pre-investment and project execution stage; they import the majority of their components so that there is little domestic linkages; obtain production, engineering and market capabilities through their headquarters or contractor; and there is no major change or design capability at the joint venture. Technological capability is embodied in the workers trained, minor change capability, and maintenance and repair capability.<sup>360</sup>

That conclusion is consistent with the operation of foreign electronics companies on Batam Island where, in order to protect proprietary technology, Indonesia had to assure investors of 100% foreign ownership and management of operations. Virtually no effective linkages have been established by these firms with the science and technology infrastructure of the country. In fact, around two-thirds of Indonesian electronics exports in 1991 were accounted for by the 'relocation' of majority foreign-owned firms located on Java and Batam.<sup>361</sup> Equally important is the fact that the majority of these electronics companies are second-wave, middle-sized and utilise low-middle technology, being high-tech only in the Indonesian context.<sup>362</sup>

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<sup>358</sup> Electronic components accounted for 34% of Indonesia's total electronics exports. Thee Kian Wie & Mari Pangestu ; "Technological Dynamism in Indonesia's exports of electronic products", in Dialog Teknologi dan Industri : Pemacuan Teknologi menuju terbentuknya Industri Nasional yang kuat dan berdaya saing tinggi (BPPT 1993), p 131.

<sup>359</sup> BIP News, April 1995.

<sup>360</sup> Thee Kian Wie & Mari Pangestu ; "Technological Dynamism in Indonesia's exports of electronic products", in Dialog Teknologi dan Industri : Pemacuan Teknologi menuju terbentuknya Industri Nasional yang kuat dan berdaya saing tinggi (BPPT 1993), p 133.

<sup>361</sup> Thee Kian Wie & Mari Pangestu ; "Technological Dynamism in Indonesia's exports of electronic products", in Dialog teknologi dan industri : Pemacuan Teknologi menuju terbentuknya Industri Nasional yang kuat dan berdaya saing tinggi (BPPT 1993), p 133.

<sup>362</sup> Interview with BIP Executive, September 1994.

Typical is PT UIC Electronics, a 100% foreign-owned company which moved to Batam because of the tight labour and space situation in Singapore. Electrical components are shipped to the Batam factory, made into printed circuit boards and sent back to Singapore for final assembly, packaging and export.<sup>363</sup> In the case of 100% foreign-owned contact lens manufacturer, PT CIBA Vision Batam, the choice was to relocate existing processes as part of planned obsolescence, or to look at new processes and technology. CIBA Vision decided to relocate to a low-wage centre in the Asia-Pacific region, the aim being to reduce production costs while waiting for new technology.<sup>364</sup>

In the case of joint ventures, foreign partners tend to transfer only enough technology to the local company to ensure efficient production operations - design and innovative work is carried out by foreign partners at home base. In the electronics industry on Batam, there are few joint ventures. Where there is, the role of the domestic partner is, more often than not negligible, and since the June 1994 changes to foreign investment laws, no longer required. The owners of BIP, in order to convince prospective investors of the requirement for five per cent domestic ownership, offered to that stake.<sup>365</sup> For example, PT Mitrajaya Wiraniaga, a joint venture between the Salim, Bimantara and Timsco Groups, holds a five percent stake in PT Sumitomo Wiring System Batam, and plays little, if any, role in the operation.

However, in the case of licensing arrangements, there tends to be a higher degree of innovation in the local firm - having bought the technology, it must adapt and modify it to suit local supply and demand conditions. PT Astra Microtronics Technology, a majority Indonesian-owned joint venture, produces semi-conductors for 100% export. Astra offers a full range of packaging, assembly and test services and has expanded its product lines by purchasing and utilising the latest technology in order to remain competitive.<sup>366</sup> Because of the nature of the industry - semi-conductors require a quick cycle time - Astra decided to set up on Batam in order to reduce export-import processing time from what would have been 2 days in Jakarta to 2 hours on Batam. Whilst Astra is currently air freighting out of Changi - they are still competitive because the product arrives in Houston 6 days later - they are awaiting the completion of the Batam international airport to further cut delivery time.<sup>367</sup>

<sup>363</sup> It should be noted that the plan is eventually for most assembly to be done on Batam, and Singapore used only for logistic support and marketing. *Economic Bulletin*, May 1993.

<sup>364</sup> Interview with CIBA Vision Executive, 4 October 1994.

<sup>365</sup> Interview with former Singapore Ambassador to Indonesia, Barry Desker, 23 September 1994.

<sup>366</sup> *Business Wire*, 9 May 1995. Reuters Textline 9May95.

<sup>367</sup> With a US\$70m factory on a 30 year lease they aim to be on Batam for the long-term. Operating 24 hours a day, 7 days a week, they produce 30 million chips a month, with a mark up of 1c a chip on imported raw materials. Interview with Astra Executive, 4 October 1994. They produce 236 million ICs (integrated circuits) a year, earning Astra US\$42 million annually. *Jakarta Post*, 17 January 1996.

There were about a dozen PMDN, and half a dozen non-facility domestic investments in the electronics industry on Batam by the end of 1993.<sup>368</sup> But for those domestic companies, not having a foreign link is perhaps a source of weakness in being able to gain market access, to export in sufficient volumes, and in keeping up with technology. This is particularly so for those successful in the domestic market but just beginning to export. According to Thee and Pangestu, industries that develop will be competitive as they are asked to meet international standards, meet economic scales of production and build up backward linkages domestically, and only then will they be an important part of the technological capability of Indonesia.<sup>369</sup>

Public research and development institutions and government technology policies play a crucial role in developing certain types of technology. This is no less so in Indonesia where the private sector has traditionally shunned high-competition and high-risk, and tended to stick to safe activities such as building and property development. In Indonesia, the role of BPPT (Badan Pengkajian dan Penerapan Teknologi or Agency for the Assessment and Application of Technology) is to formulate technology policy; coordinate the application of technology; carry out technology research and assessment; and provide technology services. Currently its major activities focus on the last two, and the first two requiring further work. However Research and Development in Indonesia currently accounts for only 0.35% of Government spending<sup>370</sup>

The government has set out to make value-added knowledge and technology-intensive industries more attractive, often by providing incentives. BPPT recognises that assembly lines/licenses manufacturing is low-tech with little technological transfer, but that Batam is attractive because of its low wages, and that added-value high-technology industries will require increased knowledge and technical capabilities. However on Batam Island, BPPT is yet to develop any significant or direct link with either the private sector or the electronics industries, or the overall development of Batam, even though the Chairman of BPPT and BIDA is the same person and more than 50% of key BIDA personnel have BPPT links. On Batam, BPPT's activities have been confined to projects such as remote sensing, transportation and waste treatment systems, and more recently the building of the Bareleng bridges.<sup>371</sup>

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<sup>368</sup> BIDA ; Daftar Perusahaan PMDN di Pulau Batam sampai dengan 12/11/1993. BIDA ; Daftar industri Non Fasilitas Batam, 27/10/1993.

<sup>369</sup> Thee Kian Wie & Mari Pangestu ; "Technological Dynamism in Indonesia's exports of electronic products", in Dialog Teknologi dan Industri : Pemacuan Teknologi menuju terbentuknya Industri Nasional yang kuat dan berdaya saing tinggi (BPPT 1993), p 134.

<sup>370</sup> Interview with BPPT Executive, Dr Wendy Aritenang, 25 October 1994.

<sup>371</sup> Interview with Dr Wendy Aritenang, 25 October 1994.

Despite the fairly, at least at this stage, less than optimistic view of the development of middle and high-technology industries on Batam Island, it must be said that the electronics industry is still relatively new to Indonesia, which failed to keep pace with other ASEAN countries in the race to develop medium and high-tech exports in the 1970s and 1980s. Two factors prevented Indonesia from deriving greater technological benefit during the same period. Firstly, a policy environment which strictly controlled foreign investment in the 1970s and 1980s and prevented the development of technological industries. Secondly, the low skill and education levels of Indonesian workers.

Batam Island suffers from the same sorts of shortages of skilled workers as the rest of Indonesia. Despite employment growth, a scarcity of skilled-labour and an overabundance of unskilled labour, poses a serious problem for Batam Island where manufacturing industries require semi-skilled workers and trained technicians. The main reason for this has been that human resource development in Riau Province and on Batam Island has not kept pace with rapid industrialisation and the needs of investors.<sup>372</sup> This lack of skilled workers has necessitated the sourcing of workers from other areas of Indonesia by the Ministry of Manpower and private recruiting firms, often in cooperation with investors and industrial park operators, and efforts have been made to provide skills training in Singapore through the EDB's Regionalisation Training Scheme.<sup>373</sup> Current government efforts at basic-skills education and training on Batam are largely ineffective.<sup>374</sup>

For labour on Batam to remain competitive, particularly in the light of recent wage increases, the Indonesian government will need to tackle human resource development. The development of scientific, engineering, technical and managerial manpower at all levels will be essential to the success of industrial development on Batam, particularly in the long term. For many investors, it is shortages of middle-level managers, rather than semi-skilled and skilled labour, that poses more serious problems.<sup>375</sup> Human

<sup>372</sup> Pelita, 5 May 1993.

<sup>373</sup> The clear majority of workers sourced by the Ministry of Manpower and private recruitment agencies still require further skills training. Many companies in BIP provide on-the-job training for Indonesian workers in Singapore before being deployed on Batam Island. Under the EDB's Regionalisation Training Scheme, previously the International Business Linkage Scheme, companies can bring workers from Batam to Singapore for on-the-job training for up to 6 months, with exemption from the foreign workers levy. The policy was later changed to operate on a case-by-case basis in order to avoid abuses of the system, after some Singapore employers rotated workers from Batam in Singapore for less than six months under the guise of training. Sree Kumar & Sharon Siddique; "Skills development in SIJORI and the Singapore experience", in Adi Sasono, A.Makmur Makka, Moh.Jumhur Hidayat (eds) Pertemuan Serantau (CIDES, Jakarta 1993), p 204. By September 1993, some 31 companies from BIP had participated in the scheme, training over 4,000 workers. The foreign workers levy was set at S\$300-450. Straits Times, 6 September 1993.

<sup>374</sup> Whilst the government has supported basic-skills education and training on Batam Island, businessmen complain that vocational training centres, such as the BLK (Balai Latihan Kerja) are ineffective in terms of content, quality and number of graduates. In addition to government training centres, private courses and practical classes have begun to spring up on Batam. Media Indonesia, 1 February 1994. Bisnis Indonesia, 28 December 1994.

<sup>375</sup> Various Interviews on Batam Island, October 1994.

resource development will need to be a clear priority if Batam Island is to continue to attract foreign investment.

It is clear that the labour situation will be important in determining Batam's short and long term prospects. Whilst the advantage of Batam was once its cheap and abundant labour, Batam now risks becoming uncompetitive because of high labour costs and a lack of skilled workers. In fact, many saw the move to increase wages as an attempt by Habibie to move Batam up the technology ladder. However, as things stand now, the nature of Batam's skills base is more conducive to large-scale unskilled labour-intensive production and not service and high-tech industries.

The appropriateness of Habibie's policy of promoting higher value-added and high-tech capital-intensive manufacturing is often questioned. The policy has restricted the outflow of lower-value-added manufacturing from Singapore even though these are the very industries that can promote Batam and Riau's development at present. It could be questioned whether the boom that has occurred on Batam would have been bigger if the restriction to high-tech industries was not there.

Inadvertently, Habibie's restrictive industrial framework, in conjunction with labour market tightness, has ensured that wage costs on Batam remain in an upward spiral and thereby erode complementarities at a faster pace than previously thought possible. Perhaps recognising the restrictions placed on investors on Batam, as well as encouraged by early developments and success on Batam, the Indonesian government began the development of Bintan Island with a different economic orientation. (see Chapter Seven)

Habibie's aims have raised questions about the merits of challenging the wisdom of conventional development theory - that is, countries should initially exploit their existing comparative advantage in labour-intensive manufactured goods. Yet it can also be asked whether there is a pre-ordained role for a country in the international division of labour. The question is whether Habibie can promote a particular position in the international division of labour, or perhaps how far he can do so.

Whatever Batam's high-technology future holds, the options will be conditioned by regulations set by Habibie and the Indonesian government, and success will rely on the continuation of selective resource allocation. The major irony of Batam Island is that experience so far suggests that deregulation only freed market forces to steer export-oriented industries more in the direction of Indonesia's comparative advantage in low-tech, labour-intensive manufacturing.

## Batam in the Domestic Political Context

Batam Island has its critics. They target not only Habibie, but the overall development plans for Batam. Distributional issues - between investors and the local community, between Batam and the rest of Riau province, between Riau and other provinces, and between Indonesia and Singapore - are perhaps the most often raised because the political implications of developing Batam Island are equally as important as the economic implications. Developments raise questions about who actually benefits from development and what if all of Indonesia was made in Batam's image. Many hold the opinion that overall there has been little progress and few benefits for Indonesia.<sup>376</sup> A typical view was that expressed by economist, Kwik Kian Gie,

The government has to carefully consider how much benefit it will get from foreign investors.<sup>377</sup>

Major criticism has come from economists who, in recent years, have closely scrutinised the development of Batam Island. Whilst Habibie has tried to woo several influential economists, they remain his most vocal critics.<sup>378</sup> The most vocal is Sritua Arief, who argues that the net impact of development on Batam is not favourable, and that Batam is no different from the "plantation economy" which existed under the Dutch. According to Sritua Arief there are several myths that go with the development of Batam Island - that the increased participation of Singapore means increased benefits for Indonesia; that there are macro-economic benefits, such as foreign-exchange earnings, technology-transfer, increased employment and tax revenue; and that it promotes regional development.<sup>379</sup>

According to Sritua Arief, net foreign exchange earnings on Batam are relatively small, and have actually decreased - from 1986 to 1991, Batam contributed US\$510m. to Indonesia's foreign income, but during the same period it spent about US\$1.5b. to import capital and household goods.<sup>380</sup> Sritua Arief also argues that most of the value-added benefits leave the country and that the only benefits for Indonesia are wages paid for labour, land rental, payments for services and utilities, and payment for local raw materials.<sup>381</sup>

<sup>376</sup> Various Interviews with former Ministers and senior officials, 1994.

<sup>377</sup> *Tempo*, 14 October 1989.

<sup>378</sup> For instance, he invited a group of them on a private visit to explain developments on Batam. *Editor*, 1 May 1993.

<sup>379</sup> *Suara Pembaruan*, 5 August 1991. Sritua Arief ; "SIJORI : Between Myth and Reality ", paper presented at discussion on Segitiga Pertumbuhan SIJORI/JSR Growth Triangle, (ISEAS, Singapore 12 April 1993). Sritua Arief ; "SIJORI dan Ekonomi Indonesia" in Adi Sasono, Umar Juoro & A.Makmur Makka (eds) ; *Pembangunan Regional dan Segitiga Pertumbuhan* (CIDES, Jakarta 1993), pp 3-10.

<sup>380</sup> *Economic and Business Review Indonesia* No.92, 15 January 1994.

<sup>381</sup> *Bisnis Indonesia*, 17 February 1993. Sritua Arief ; "SIJORI : Between Myth and Reality ", paper presented at discussion on Segitiga Pertumbuhan SIJORI/JSR Growth Triangle, (ISEAS, Singapore 12 April 1993).

Many question the benefits of the enclave-type economic development taking place on Batam Island, in particular whether there is sufficient spillover to the rest of the provincial and national economic sectors. There is no doubt that the enclave nature of an export processing zone in a developing country is attractive for MNCs. For many, it is a "country within a country", for the conditions under which they operate and the preferential treatment they receive is not usually available for domestic industries.<sup>382</sup> One economist put it thus :

Multinational corporations seek out free trade and export processing zones precisely because they are enclaves and have little connection to the rest of the economy or society.<sup>383</sup>

Such economic zones are also used as a means for governments to promote exports, while at the same time protecting domestic markets and producers. As enclaves, free trade and bonded zones cannot be expected to have propulsive influences on their surrounding areas.<sup>384</sup> Critics argue that EPZ's generally do not lend themselves to transfers of skills or technology, generate comparatively little employment, provide limited direct benefit to the local economy, develop few links with rest of the national economy, and are a costly public outlay in support of private enterprise. According to Sritua Arief, so far this has characterised the development of Batam.

There is no doubt that Batam's development must remain directed to Singapore and the international economy, but it must also develop linkages with the domestic economy, especially the Riau hinterland. Up to now that linkage is limited to the supply of unskilled labour and to smuggling out of Batam. Yet, given the present level of economic development in Riau and Sumatra, it is unlikely the linkages would go beyond the supply of raw materials and food.<sup>385</sup>

Whilst Batam's contribution to Riau province was about one-fifth of the province's total domestic product in 1993<sup>386</sup>, as yet there is little evidence to suggest that Batam has had multiplier effects on the province or the rest of the Indonesian economy, and it is

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<sup>382</sup>Takeo, T. ; "Free Trade Zones in Southeast Asia", *Monthly Review*, Vol.29 No.9 (1978), p 29.

<sup>383</sup>Denis Rondinelli : "Export Processing Zones and Economic Development in Asia : A Review and Reassessment of a means of Creating Jobs and growth" *American Journal of Economics and Sociology*, Vol.46 (January 1987), p 98.

<sup>384</sup>There is a wide range of literature on EPZs. The following is a brief selection. For discussion of the role of an EPZ in national development strategy, see Michael Webber & Zhu Ying ; *The Role of Export Processing Zones in Industrial Development*, Monash University Development Studies Centre, Working paper 93-2. For a cost and benefit analysis of the economic and welfare affects of Zones see Peter Warr ; *Export Processing Zones : The Economics of Enclave Manufacturing* (World Bank, 1989). For a political economy model, which hypothesises that EPZ performance is affected by three sets of independent variables - international environment, domestic conditions and the role of the state - see Jing-dong Yuan & Lorraine Eden ; "Export Processing Zones in Asia : A comparative Study" *Asian Survey* Vol.XXXII No.11 (November 1992), pp 1026-1045.

<sup>385</sup>*Business Times*, 22 June 1994.

<sup>386</sup>*Bisnis Indonesia*, 20 October 1993. Batam contributed a fifth of Riau's GDP in the industrial sector in 1992. *Angkatan Bersenjata*, 23 January 1993.

difficult to see how it can establish linkages with other parts of Indonesia in the near future. According to Sritua Arief, the development of agro-industry on Batam and surrounding islands would be more useful, because it would bring in foreign exchange and domestic income, would be linked to the domestic economy and would create a workforce much larger than capital-intensive industries.<sup>387</sup>

Indonesian industrial policy encourages the expansion of growth centres, mostly located outside Java, in order to distribute economic development more evenly throughout the archipelago, but so far the enclave-type development of Batam has had little effect in achieving that purpose. How such enclaves can contribute best to the surrounding community, and to the nation, is one of the trickiest tasks of development policy and practice.<sup>388</sup> Until such time as it does, calls for Batam to develop linkages with the eastern coast of Sumatra so that this area would enjoy a spill-over from the development of Batam, will continue to increase.

A further criticism, and a far more explicitly political one, concerns the role of Singapore in the development of Batam. Often raised is the overt dependence of Batam on Singapore, not simply for investors and tourists but also for daily necessities. A typical view is that of Deliar Noer, who questions whether Indonesia actually benefits from the development of Batam.<sup>389</sup> A letter to the editor published in the *Jakarta Post* illustrates an often-held attitude in Indonesia. The writer complained,

As an Indonesian, I am not very proud of what is going on at Batam. The transformation has boosted the development of the island, but look at what it has done to the people there. The so-called Singaporisation has made them the second class people catering to the needs of the 'visiting' nation.<sup>390</sup>

The issue of foreign ownership of Batam residential and commercial properties sparked vigorous debate in Indonesia in 1990. Chairman of the National Land Agency, Soni Harsono, claimed that foreigners were trying to own land in the country by transferring ownership in a "veiled manner" to local citizens.<sup>391</sup> Forced to relinquish properties, many Singaporeans tried to secure ownership through other means, and officials reported the transferral of land and property to second parties, often Indonesian friends or family.<sup>392</sup> In veiled reference to Singapore, Regional Military Commander Major-

<sup>387</sup> *Tempo*, 3 April 1993.

<sup>388</sup> See one of the few studies made of this. Pudji Siswanto ; *The Effects of Export Processing Zones on Regional Development : A Case Study of Batam Island, Indonesia* (M.A. Thesis, Flinders university, February 1993).

<sup>389</sup> *Forum Keadilan*, Th.II No.20, 20 January 1994.

<sup>390</sup> *Jakarta Post*, 31 October 1994. The response from a Singaporean in the same forum, was also fairly typical, claiming that the other side of the coin was that, "...the standard of living in Batam has improved and that the people there are making money." *Jakarta Post*, 7 November 1994.

<sup>391</sup> *Merdeka*, 25 September 1990.

<sup>392</sup> *Tempo*, 1 September 1990.

general H.R.Pramono even warned that Batam Island could become a centre of subversion.<sup>393</sup>

Habibie disputed allegations that Batam was virtually owned by foreigners during a parliamentary hearing in September 1990, denying that foreign investors owned land on Batam Island, and insisting that Indonesian laws were enforced on the island. Habibie also gave assurances that BIDA would not hesitate to revoke the permits and licences of businessmen doing so.<sup>394</sup> Other government officials have also denied that strict laws on land ownership, or the protection of strategic resources provided by the constitution, would be thrust aside.<sup>395</sup>

Visiting Batam at the beginning of 1994, President Soeharto, in a speech seen as a response to criticism about the government's focus on the island's development at the expense of other parts of Indonesia, acknowledged the benefits from cooperation with Singapore but added that,

As a big nation, how is it that we still depend on a small nation? This is certainly not in line with what we aspire to. Because of that thoughts have arisen as to how Batam can be developed in a framework free from that dependence.<sup>396</sup>

Whilst Soeharto did not name the 'small nation', it was taken as an obvious reference to Singapore. Indeed, Indonesia has taken several steps to create facilities on Batam to relieve its dependence on Singapore, led by the development of Asiaport and the international airport. Several steps have been proposed to support the airport, including measures to provide cheap aviation fuel and re-route long-haul Garuda Indonesia flights from a Singapore to a Batam stop-over.<sup>397</sup> According to Habibie,

This is an opportunity for us to take over the role which [Singapore] plays.<sup>398</sup>

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<sup>393</sup> He said that if issues there are not handled well, national stability could be disturbed. He warned that development should not neglect national defence as well as social or welfare issues, and called on all private employees and government employees on Batam Island to take P-4 refresher courses, in order to prevent the entry of ideas opposed to Pancasila. Whilst he did not go into details about the threats to national resilience he said that he had already reported the measures that should be taken to ABRI Commander Try Sutrisno and Habibie, and that the regional military district would now also be involved in Batam's policies with regards to possible threats. Other officials had previously spoken about the dangers of neglecting social issues in developing Batam, but none had been so direct as to make the connection with its effect on national resilience and stability. *Merdeka*, 19 June 1991. *Angkatan Bersenjata*, 20 June 1991. *The Straits Times*, 20 June 1991.

<sup>394</sup> *The Straits Times*, 28 September 1990. *The Jakarta Post*, 28 September 1990.

<sup>395</sup> *Far Eastern Economic Review*, 6 September 1990, p13.

<sup>396</sup> *Kompas*, 21 February 1994. *Business Times*, 22 February 1994.

<sup>397</sup> There are other reports that inexpensive fuel is being offered in order to entice international airlines to Batam Island for refuelling stops. Caroline Yeoh, Lau Geok Theng, Mark Goh & Julie Richardson; *Strategic Business Opportunities in the Growth Triangle*, (Longman, Singapore 1992), p 19. For a short period in the early 1990s, Batam's airport handled Garuda Indonesia flights to Vietnam. *Tempo*, 6 May 1989. *Singapore Business*, December 1990. Garuda and Taiwan's Eva Air are negotiating a Taipei-Batam-Jakarta route. *The Sunday Times*, 14 August 1994. See also *Straits Times*, 28 August 1993. *China Economic News Service*, 1 June 1995.

<sup>398</sup> *Tempo*, 14 October 1989.

There are many, however, who question the merits of trying to compete with Singapore.<sup>399</sup> It is clear that the development of Batam is considerably due to the efforts of Habibie, but Batam has required the infrastructure, management and marketing support of Singapore, and therein lies the conflict, for it is clear that there are and will be limits on how far Singapore authorities will be able to institutionalise their model of public administration. Those such as the Indonesian Managers Association, support Singaporean involvement and believe that stronger links between Batam and Singapore would help develop the island faster.<sup>400</sup> Despite the rhetoric and public posturing, it is clear that Batam has to exploit Singapore's dynamism and proximity in a positive way by playing on complementarity.

There have been disagreements between Singapore and Indonesia. According to Habibie, plans to develop the aircraft maintenance facility were delayed in early 1994 because Singapore wanted control and management of the project.<sup>401</sup> However, what could have been a point of contention - Indonesia's desire to gain control of flights over its airspace stretching from the Natuna Islands to Bangka Island, South Sumatra which was under the jurisdiction of Singapore's Changi airport - was settled fairly amicably with the signing of a new air services agreement in September 1995.<sup>402</sup> Such examples of cooperation stand as testament to the good relations between the two countries, and of the desire to reach amicable settlement of any dispute.

There has also been considerable criticism that the enormous resources used to development Batam could have been used for other, and more productive, purposes. On at least one occasion Habibie has been forced to defend himself in front of Komisi DPR against allegations that development projects on Batam were a waste of funds.<sup>403</sup> For instance, the Barelang bridges project has meant that government infrastructure expenditure under BIDA will increase enormously. According to Habibie, however, it will be financed through revenues obtained by BIDA from land leases in the Barelang region, supplemented by the minimum possible subsidy from the national budget.<sup>404</sup>

In early 1994, Soeharto responded to on-going criticism about the government's focus on the island's development at the expense of other parts of Indonesia, his comments outlining his vision for Batam and its relationship with Singapore. According to Soeharto, Batam Island's growth and development would spur growth in other parts of Indonesia, and obtain much-needed foreign earnings. In addition, Batam would become

<sup>399</sup> Various interviews with former ministers and senior officials, 1994.

<sup>400</sup> *The Jakarta Post*, 10 November 1992.

<sup>401</sup> *Straits Times*, 26 February 1994. *The Australian*, 1 March 1994. *Straits Times*, 3 September 1994.

<sup>402</sup> *Business Times*, 22 September 1995. See also *Straits Times*, 6 September 1994. *Business Times*, 29 June 1995.

<sup>403</sup> *Jakarta Post*, 6 February 1993. *Straits Times*, 8 February 1993.

<sup>404</sup> *Indonesia Business Weekly*, Vol II No.12, 4 March 1994.

a terminal for all Indonesian commodities being exported. Soeharto insisted that development must be carried out because Batam Island was the "ujung tombak" (spearhead) of Indonesian development.<sup>405</sup>

On this, and other occasions, Soeharto has come to Habibie's defence in the face of public criticism. Soeharto's claim that it was his idea to begin the development Batam Island in the late 1960s is the most obvious example. Habibie too has often exploited his relationship with Soeharto. For instance, in an attempt to deflect criticism from himself and his Bareleng bridges project, Habibie claimed that the idea came directly from the President.<sup>406</sup>

However, the scrutiny of the mass media and observers such as economists, has not always been balanced, and is often politicised. For instance, media coverage of Batam Island in April 1993, purportedly about the industrial development of Batam, gave unnecessary attention to negative aspects of development such as prostitution.<sup>407</sup> Not to be deterred by criticism, however, Habibie has announced plans to "mem-Batam-kan" (Batamise) other areas of Indonesia.<sup>408</sup>

### Policy-Making

Policy-making on Batam during the 1990s exhibited all the major features of New Order political economy. Presidential Domination, Clientelism and Intra-elite Politicking remained the most consistent elements of the policy-making processes. External influences were clearly important, and for the first time on Batam there were signs of pluralist politics, indicating that the policy-making processes were no longer insulated from non-state pressures.

President Soeharto remained pivotal to the policy-making structures for Batam Island. It was Soeharto's decision to allow 100% foreign-owned enterprises on Batam. It was also Soeharto's decision to actively support Singaporean investment on Batam. In both regards he was strongly encouraged by the technocrats and Singapore's Lee Kuan Yew.

<sup>405</sup> *Suara Pembaruan*, 20 February 1994. *Straits Times*, 22 February 1994.

<sup>406</sup> *Media Indonesia*, 1 July 1992. *Suara Pembaruan*, 21 July 1992. BIDA officials maintain that the idea for building the Bareleng bridges was Habibie's. Interview with Gunawan Hadisusilo, 10 August 1994.

<sup>407</sup> See *Tempo*, 7 April 1993. *Kompas*, 18 April 1993.

<sup>408</sup> In January 1993, he announced that Mamberamo in Irian Jaya would be developed into a second Batam, and managed by an authority similar to BIDA. It has become a pet project of Habibie, involving a large inland port, hydro electric dam and heavy industry. *Kompas*, 15 January 1993. *Bisnis Indonesia*, 15 January 1993. *Suara Karya*, 15 January 1993. *Australian Financial Review*, 24 October 1995. In January 1994, he announced plans to develop Madura Island into a larger industrial centre than Batam, leading Singapore, the owners of BIP and BIDA to claim that it would not pose a threat to Batam. Unlike Mamberamo, the Madura plan has been put on hold while negotiations continue with the local community led by Ulama. *Kompas*, 8 January 1994. *Straits Times*, 10 January 1994. *Straits Times*, 12 January 1994.

Soeharto retained strong faith in BIDA Chairman, Habibie, and actively supported his high-technology platform and infrastructure plans. However, it is notable that the position of BIDA Chief Executive has been filled by former Presidential adjutants. That the formal power to make the appointment was the preserve of Habibie indicates that Soeharto felt a need to exert more influence on developments.

In most regards, Habibie had complete control over developments on Batam, and he was largely unaffected by interference from the technocrats. He continued to maintain strict control over the types of investment permitted. He pursued heavy government investment in large infrastructure projects, such as the international airport and the Barelang bridges. He obtained an extension of BIDA's working area to nearly double the original size, by adding 33 more islands to form Barelang.

Intra-elite politicking remained true to its name. The traditional technocrats-versus-nationalists dichotomy, however, was less obvious than in the past. There were several reasons for this. Firstly, Habibie was so firmly entrenched on Batam by 1989 that the technocrats were not keen to exert pressure where it had little or no chance of success. Secondly, the Singapore government was doing much of the work for them, particularly in the case of the relaxation of investment regulations. Thirdly, rather than attempt to deregulate Batam, the technocrats simply set up their own projects on neighbouring Bintan and Karimun Islands. (See Chapter Seven) Lastly, the 1993 Cabinet saw the retirement of many of the longest-serving technocrats, and thus the removal of a long-time source of antagonism for Habibie.

Inter-ministerial conflicts did, however, play an important part in the policy-making processes. Ministers for Internal Affairs, Rudini and Yogie S. Memed, were often at odds with Habibie over the role of BIDA on Batam, seeking to reduce its power and elevate the status of the Riau provincial government. Similarly, Chairman of the BPN, Soni Harsono, refused to enact changes to the laws governing land on Batam Island, forcing Habibie to use loopholes in existing laws to make the changes he desired.

The quick influx and dominance of Jakarta conglomerates on Batam during the early 1990s was nothing less than remarkable, and with them came the business culture of Jakarta. Business on Batam became heavily reliant on clientelistic connections, particularly in the designation of land plots and licenses, and in the awarding of contracts and sub-contracts. In this regard, and regardless of business acumen, those with strong political connections have benefited considerably. Moreover, whilst many domestic and foreign investors have had their land and investment licenses revoked, those with good political connections have been noticeably absent from the list.

The Salim Group became the largest and most diversified conglomerate on Batam with interests ranging from industrial estates to recreational facilities. The growth of the business interests of the Habibie family was both rapid and remarkable, the majority of their activities in tourism and property development, but assisted by contracts from state enterprises. Perhaps the most interesting partnership on Batam was that between the Salim, Bimantara and Timsco Groups, who are involved together in no less than six joint projects. The operations of other companies owned by ABRI and well-connected businessmen were no less important, illustrating the way in which the interests of the economic elites follow closely on the heels of political elites.

In line with the increasing scope and complexity of economic activity, a host of societal voices emerged on Batam in the 1990s, both corporatist and pluralist in nature. Those in the corporatist camp included Kadin Batam which, because it was headed by Habibie's brother-in-law, Soedarsono, and the fact that it is a government-sanctioned business association, could not be considered to be an independent voice. Other groups, such as social organisations, Yayasan Keluarga Batam and FKKS Batam, headed by Habibie's sister, Sri Rejeki, also fell into this category.

The pluralist camp was led by industry associations, the majority of which were headquartered in Jakarta but with branches on Batam. Several industry groups were outspoken on issues pertaining to the development of Batam, and at times were influential. Among these can be included REI, PHRI and Gapensi. Whilst the majority of their activities were spent on liaison with BIDA and government authorities, at times they had important policy input, and on occasion initiated policy change.

Other societal influences were notable. Pemda Riau clearly exerted more influence over the Batam project than in the past, although it relied heavily on the support of the Ministry of Internal Affairs to raise its status and profile. Members of the DPR were outspoken in this regard, partly because local government is the preserve of a parliament-enacted law whilst BIDA is covered by Presidential decree. DPR members also criticised the amount of government expenditure involved in the Batam project. Always a consideration, the Media balanced rudimentary reporting with negatively weighted coverage of social aspects of development and the role of Singapore.

The Singapore government continued to be a policy consideration in developments on Batam during the early 1990s. It was particularly influential in obtaining new regulations on foreign investment and industrial estates. That influence was based almost solely on the Soeharto-Lee relationship, which had developed over more than twenty years. However, the good relationship was being maintained by the new generation of leaders in Singapore and Indonesia.

The case of BIP is an interesting one. The developers behind BIP were particularly influential in seeking regulatory changes. In many ways their political clout was proportionate to their economic importance to the overall Batam economy. However, that pressure came from both the Singapore government, through the EDB, and from the Salim Group makes it difficult to discern which was the more important factor in influencing Indonesian policy-makers. There is no doubt that the EDB's direct channels to the Indonesian Ambassador in Singapore and several Indonesian ministers were very important in this regard. At the same time, the Salim Group had its own political connections within the Indonesian government, including the President. Which was the more influential of the two routes is difficult to determine. What is clear is that all partners behind BIP desire efficient service for their tenants and that often meant pressure for regulatory reform. For BIP's developers it was perhaps less important which channels were used, so long as the desired outcome was achieved.

# 7

## The Growth Triangle

In December 1989, then Singapore Deputy Prime Minister, Goh Chok Tong, announced that Singapore, together with neighbouring areas of Malaysia and Indonesia could form a "triangle of growth".<sup>1</sup> The 'Growth Triangle' - as it came to be known both as a geographic unit and as an economic concept - and as conceived by Goh, aimed to take advantage of a cross-border spillover of economic activity from Singapore into the contiguous Malaysian state of Johor and the Indonesian province of Riau. Developed by Singapore, the idea was quickly adopted and supported by Indonesia, and to a lesser extent by Malaysia.

Under the auspices of the Growth Triangle, Indonesia-Singapore economic cooperation in Riau province has increased dramatically. Beginning initially on Batam Island through the creation of BIP (Batamindo Industrial Park), cooperation has spread to other islands and areas of Riau province, with projects totalling over US\$10 billion over the long term. Not only has this cooperation had an important impact on overall Indonesia-Singapore relations but it has also had an impact on the Indonesian government's development strategies for the area, especially for Batam Island.

### The Indonesia-Malaysia-Singapore Growth Triangle

The Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT) unites the city-state of Singapore with the state of Johor in Malaysia, and the Riau province of Indonesia, which together straddle the strategic sea route of the Straits of Malacca between the South China Sea and the Indian Ocean. The linkages can in some ways be seen as mirroring the fluid nature of political boundaries and economic exchange in pre-colonial Southeast Asia - the three areas once formed parts of the Johor-Riau Empire which, with the coming of the European powers, declined in importance, and was eventually divided into two, and later three separate regions.<sup>2</sup> However, despite historical associations, the present situation cannot be seen as a rediscovery or throwback to any historical period, except geographically, due to separate political and economic development in the colonial and post-colonial periods.

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<sup>1</sup> *Straits Times*, 21 December 1989.

<sup>2</sup> Singapore, Johor and Riau were once part of the powerful Kingdom split up in 1824 with the signing of the Treaty of London between the Dutch and the British. All territory north of the Straits of Singapore came under British rule whilst that south of the straits came under the Dutch. Upon independence the British territory developed into two nation-states, Singapore and Malaysia.

The IMS Growth Triangle officially began in June 1990, when the concept received the endorsement of both Malaysia's and Indonesia's leaders. The basic premise was to combine Singaporean capital, management and technical expertise with the cheaper and more abundant land and labour of Riau and Johor in order to accelerate regional economic development. Its main purpose, as intended by Singapore, was to provide an incentive for Multi-National Corporations (MNCs) to consider the region as a whole for investment, by maintaining or placing capital and knowledge-intensive operations in Singapore, and operating labour-intensive and spatially-driven operations in Johor or in Riau. The aim being to lure MNCs seeking a mix of cheap labour, skilled professionals and efficient infrastructure to an economic zone which could provide such a business environment.

Based on comparative advantage, more complementary than competitive, the hierarchical economic relationship had Riau concentrating on labour-intensive industries, Johor on intermediate-level industries and Singapore on capital and knowledge-intensive industries and services. This extension of economic activity made sound business sense. For example, manufacturing companies could engage in vertical specialisation, locating labour-intensive processes in Johor and Riau, and more skill and knowledge-intensive activities (such as headquarter operations - finance, marketing, distribution, administrative and legal services) as well as newer and more sophisticated manufacturing processes in Singapore, all in line with each particular area's comparative advantage. See Table 7.1 for an example of the comparative advantages of land and labour costs in 1989. Geographical proximity too, made business sense, as it implied a minimisation of transport and communication costs. As an integrated subregion the Growth Triangle could be more attractive to investors than its separate parts.

**Table 7.1**

**Comparative cost of land and labour in the IMS-GT, 1989<sup>3</sup>**

	Batam	Johor	Singapore
Land (per sq.m.)	US\$2.3	US\$4.08	US\$4.25
Unskilled Labour (per month)	US\$90	US\$150	US\$350
Semi-skilled Labour (per month)	US\$140	US\$220	US\$420
Skilled Labour (per month)	US\$200	US\$400	US\$600

<sup>3</sup>Harvest International 1990, in The Hong Kong and Shanghai Banking Corporation Ltd ; A guide to the Growth Triangle - Batam, Johor, Singapore, 1992 (no date).

Some companies have capitalised on the complementary strengths of the different locales in the Growth Triangle. French electronics company, Thomson S.A., had a regional network strategy even before the Growth Triangle concept was proposed. Beginning operations in Singapore in 1975, it had its first factory in Johor in 1979, and was using a subcontractor on Batam Island by 1988. By 1991, Thomson was employing more than 15,000 workers within the Growth Triangle area, through its Batam Island plant, 2 Johor plants and three Singapore plants where it had its regional headquarters.<sup>4</sup> Others employing a similar strategy include Sumitomo, which uses Singapore as a regional base for marketing and distribution, product design and business development to support operations on Batam and in Johor, and AT & T which produces cordless phones in Batam and high-end communications products in Singapore.<sup>5</sup>

Not only did the Growth Triangle aim to enhance inflows of investment, it also intended to facilitate subregional cooperation in business and tourism. The Growth Triangle was envisaged as a tourism drawcard, for there were advantages to be gained from combining the natural advantages of Johor and Riau with Singapore's tourist throughput. For instance, visitors to Singapore could have short holidays in the adjoining resorts in addition to the normal Singapore 'shopover'. Architects have gone so far as to propose a physical link-up of the three areas of the IMS-GT with a US\$55 billion system of bridges and tunnels in order to facilitate such activity.<sup>6</sup>

### **Current Status of Cooperation under the IMS-GT**

There are a number of issues and questions surrounding the IMS Growth Triangle. Whilst it has been highly praised, it has also been criticised, in particular because the Johor-Riau link is virtually non-existent, raising questions as to whether the 'Growth Triangle' is really a 'triangle'. In addition, the existence of a 'missing link' has also meant that the IMS-GT lacks any institutional arrangement at present. The reasons for this lie in a combination of political and economic factors.

Economic integration within the IMS-GT is essentially between Singapore and Johor, and between Singapore and Riau. The Singapore-Riau link is covered by a number of formal agreements signed between Singapore and Indonesia, the most important of which outlines Singapore's role in the joint development of Riau province. (See below for details). The Singapore-Johor link, on the other hand, is not covered by any formal agreements beyond an understanding between Singapore and Malaysia for the 'twinning'

<sup>4</sup>Lee Tsao Yuan ; "Growth Triangles in ASEAN" *PITO Economic Brief* , No.10 (June 1992), p22. *Straits Times*, 29 October 1991.

<sup>5</sup>*Jakarta Post*, 2 May 1990. Caroline Yeoh, Lau Geok Theng, Mark Goh & Julie Richardson ; *Strategic Business Opportunities in the Growth Triangle*. (Longman, Singapore 1992), p 88.

<sup>6</sup>*Reuters News Service*, 20 November 1995. *Straits Times*, 22 November 1995. *Straits Times*, 27 November 1995.

of Johor and Singapore.<sup>7</sup> Nevertheless, Singapore-Johor economic integration predates the IMS-GT, and economic and other links are stronger and broader than the present level of Singapore-Riau cooperation. Neither of these arrangements is directly related to the Growth Triangle as a whole.

However, whilst there is agreement that there is complementarity between Singapore and Johor and between Singapore and Riau, there are serious doubts about the degree of complementarity between Johor and Riau. No arrangement exists between Malaysia and Indonesia, or Johor and Riau. In fact, links between the two areas are virtually non-existent, and their current levels of economic development do not warrant significant flows of trade or investment. Not only do Johor and Riau have similar endowments with regards to labour, land and resources, there is a lack of supporting infrastructure linking them. There is little cross-border investment and trade, and little incentive for such endeavours.<sup>8</sup> It is doubtful whether deep linkages can be developed and sustained between these states, particularly in the short-term. This reality is also seen at the national level where the proportion of trade between Indonesia and Malaysia remains low.<sup>9</sup>

Cooperation in whatever form is likely to succeed only if the benefits are clear and balanced between the participants, and currently there are different perceptions of the benefits and costs of participation in the Growth Triangle. There are questions whether the 'Growth Triangle' affords sustainable, appropriate and desired benefits to all participants, particularly when the development aspirations of Malaysia and Indonesia do not necessarily accord with Singapore's, and when Malaysia and Indonesia are in competition with each other. In the end it must be realised and recognised that the IMS-GT entails benefits for all three parties involved.

All three governments share common economic goals, such as a desire for an increase in private investment. However, the fact that the 'Growth Triangle' was long referred to as SIJORI (Singapore-Johor-Riau) in Indonesia, as Nusa Tiga in Malaysia, and the JSR (Johor-Singapore-Riau) Growth Triangle in Singapore illustrates the differences between

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<sup>7</sup> Malaysian Minister of Trade, Rafidah Aziz, has claimed that the IMS-GT was not balanced, and was more centred on Batam which involved Singapore and Indonesia. *Bisnis Indonesia*, 21 September 1994. There is a Memorandum of Understanding for the supply of water and gas from Johor to Singapore, signed in the 1960s. In addition there is long-standing liaison between Singaporean and Malaysian officials, particularly those from Johor.

<sup>8</sup> It can be noted that some linkages between Johor and Riau have been established, such as a ferry route between Johor and Batam (through Singapore), and minor reciprocal investments in Johor's tourism sector and Batam's manufacturing sector. An Indonesian-Malaysian joint venture has been formed to develop a tourist resort on Gunung Ledang in Johor. *Indonesia Development News*, Vol.13 No.4 (March/April 1990), p 8. *Kyodo*, 4 March 1991. *Antara*, 5 March 1991. Recently Padang Industrial Park was set up in West Sumatra as a joint development between the state-owned Johor Corporation and the West Sumatra provincial government. *Straits Times*, 5 March 1996.

<sup>9</sup> It should be noted that Indonesian Minister B.J.Habibie led a high-level team of Indonesian ministers and officials to visit Johor in February 1991. Little has come from the joint committee on economic cooperation that was to have been set up. *Xinhua*, 8 February 1991. *Straits Times*, 7 February 1991.

the three countries. It is not clear-cut as to who gains more from the arrangement, in either the short or long run, even though it is clear that there are benefits to all. As data for measuring costs and benefits is not readily available nor easy to measure, perceptions are very important.

The issue of equity, and the distribution of benefits accruing from the Growth Triangle is therefore a major impediment to cooperation, especially trilateral cooperation. The political commitment of all three governments to the idea will be of over-riding importance before more pragmatic policies and implementation issues can be considered. Political commitment is also necessary to provide a sense of stability and continuation for investors and to pave the way for the formulation and implementation of a clear set of policies.

The IMS-GT claims a competitive edge over other countries' plans to introduce similar growth concepts but there are questions as to whether the idea is as viable as it was when it was first proposed, and there are real concerns that other regional economic arrangements such as the rapidly growing Greater South China Economic Zone could attract investments away from the Growth Triangle and ASEAN. These concerns have been raised often, and have increasingly been tied to calls for the Growth Triangle project to be accelerated and for increased cooperation in the managing of the IMS-GT, especially in order to steer it against competing economic arrangements and to attract investors.<sup>10</sup>

There are good reasons for developing a more formal tripartite framework for the IMS-GT, yet there are also doubts whether an institutional arrangement is appropriate, let alone desired. Certainly, the idea rests heavily on stronger political commitment. Two important steps have been taken towards formalising the three-way IMS-GT relationship. The first was in February 1992, when the governments of all three countries agreed to form a joint committee to promote the 'Growth Triangle' to foreign investors. The second was the signing of a Memorandum of Understanding in December 1994 which endorsed the Growth Triangle concept and provided for consultative mechanisms to oversee cooperation. The MOU sent a clear message to businesses that the three countries fully supported the concept, were cooperating at a government-to-government level, and would facilitate and promote linkages.<sup>11</sup> Moreover, at the first formal meeting of senior ministers overseeing the IMS-GT in March 1996, the Indonesian province of West Sumatra and the Malaysian states of Negri

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<sup>10</sup>*Business Times*, 3 December 1992.

<sup>11</sup>*Business Times*, 16 December 1994. *Business Times*, 19 December 1994.

Sembilan and Pahang were included as part of the IMS-GT, substantially increasing its reach as well as opportunities for investors.<sup>12</sup>

If the area is to be developed into one integrated region for investors with the free movement of goods, services and people, as well as a harmonisation of policies, then coordination at the government level is necessary. Whilst a joint development agency would simplify coordination of development in the IMS-GT, the idea of further trilateral cooperation remains a moot one for it is probably both difficult and unacceptable for a single decision-making authority to administer and coordinate uniform policies and regulations across national boundaries. Despite some multilateral measures, there is little political commitment to changing the current format beyond an informal arrangement endorsed at the highest levels, for all agree that what is required is mutual cooperation rather than a formal treaty.

The fact that there is little linkage between Johor and Riau and that the IMS-GT is essentially founded on two Singapore-centred bilateral arrangements leads to the conclusion that the term 'triangle' is really a misnomer. It also leads to the conclusion that the IMS-GT remains a bilateral rather than trilateral arrangement, with Singapore as the growth pole. Indeed, perhaps the major issue concerning the IMS-GT centres around Singapore. This is not just because the origins of the 'Growth Triangle' lie in Singapore's unilateral declaration of a link between its relations with Johor and Riau, but also because the linkages within the arrangement centre around Singapore. Whilst this has raised questions as to Singapore's motivations, and led the IMS-GT to be seen rather as a growth area focussed on Singapore and therefore a project with specific Singaporean objectives, the reasons behind them point to the primacy of the role of Singapore.

Singapore's greater enthusiasm for the IMS-GT in part reflects the city-state's lack of separate provinces and associated political complications. It also reflects security concerns, for Singapore has always been aware of such long-term implications as its dependence on water supply from Johor. Most importantly, however, it reflects the greater economic reliance of Singapore upon economic integration with neighbouring and regional economies in order to achieve sectoral diversification.

Singapore was concerned that its industrial development was nearing saturation point, for the overall cost of doing business in Singapore rose sharply in the 1980s. Constraints of limited labour and land resulted in sharp increases in the costs of labour and property which, together with an appreciating dollar, were squeezing profit margins. Singapore then looked to cement mutually beneficial bilateral agreements that would make it the

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<sup>12</sup>Jakarta Post, 14 March 1996. No substantial initiatives emerged from the first meeting in June 1995 of the committee set up under the MOU. Business Times, 31 May 1995. Straits Times, 31 May 1995.

focus of an economic trade area, and to facilitate economic integration with its neighbours. Singapore's chief aim was to develop a greater degree of interdependence with its neighbours in order to generate economic benefits and reduce threats to its security from those states.

For Singapore, participation in the Growth Triangle was intended to help it achieve a number of objectives, including : economic restructuring; becoming a high-value added service economy and hub city; promoting the regionalisation and internationalisation of Singapore enterprises; providing leisure areas in close proximity to Singapore; achieving a secure water supply; and helping to promote the economic advancement of its neighbours and ASEAN out of self-interest.<sup>13</sup>

The Growth Triangle offered the possibility of linking the industrial expansion of neighbouring states to the Singapore economy. In effect, the idea was to geographically, and sectorally, expand the Singapore economy. It provides for capital currently based in Singapore's labour-intensive aspects of manufacturing to remain internationally competitive, as well as ensures that this manufacturing production is harnessed to Singapore's economy. Singapore has aggressively set out to make itself the financial and information centre for the region, and has actively promoted and cultivated the use of Singapore's advanced infrastructure and managerial expertise in the industrial programs being set up under the auspices of the IMS-GT. For instance, Singapore government-linked companies have played a direct part in creating physical and social infrastructure in Johor and Riau.

It may be said that Singapore has the most to gain from the Growth Triangle, but Singapore is also the most dependent on it. At the same time, the Growth Triangle also offers an encouraging opportunity for Indonesia and Malaysia to benefit from the rapidly-increasing wealth of Singapore. As a result, the IMS-GT is essentially no more than a pragmatic context for bilateral cooperation which will grow and fall according to national economic priorities and the willingness of each country to cooperate economically. To a certain extent, its future will also be determined by the continued flow of FDI into the region.

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<sup>13</sup>One paper identified six ways by which the Growth Triangle facilitates Singapore's internationalisation drive - transcending resource constraints in land, labour, recreational areas, etc; providing potential access to the domestic markets of Indonesia and Malaysia; opportunity for Singapore SMEs involved in supporting industries to relocate with MNCs; opportunity for Singapore-based companies to develop a regional business network; creating 'learning ground' for Singaporean firms; encouraging competition and cooperation through cross-border operations (alliances, joint ventures, networking). Wong Poh Kam & Ng Chee Yuen ; "Singapore's internationalisation strategy for the 1990s", *Southeast Asian Affairs 1991* (ISEAS, Singapore 1991), pp 273-4.

### **The IMS-GT, Growth Triangles and Regional Economic Integration**

Growth Triangles have been a much talked-about example of sub-regional economic cooperation, and widely seen as a good business venture. Some see such economic growth areas to be the future of economic development in the Asia-Pacific region, envisaging the growth of an East-Asian economic development corridor extending from ASEAN to China to Korea.<sup>14</sup>

Growth Triangles have often been described as 'regional economic zones', 'sub-regional economic zones', 'transnational export processing zones' and 'extended metropolitan regions'. These regional economic integration processes have been described as part of a recent international trend, particularly in Asia, where economic growth has spread across national frontiers into contiguous areas, cutting across political boundaries and systems, and occurring with or without government initiative, and with or without formal institutions and structures. These economic processes have been used to illustrate the nexus between national, regional and international dynamics, whereby it is virtually impossible to discuss economic transformation in any location in isolation from wider regional and global economic developments, and have been described as part of a trend towards a 'borderless world', at least economically speaking.

To what extent one or more of the above economic integration processes best describes the development of the IMS-GT is, however, of conjecture. What is clear is that any claim that what has developed within the IMS-GT is something akin to economic integration of the three components is far wide of the mark. It is important to understand what the Growth Triangle is not. It is not a common market or free-trade area and shows no prospects of becoming one in the foreseeable future. It is not a means for penetrating domestic markets since all incentives apply to export ventures. What the IMS-GT constitutes is official recognition of the underlying potential of three economic areas at different stages of development, and an expression on the part of the governments of those three areas to cooperate in developing that potential.

In its current form, the IMS-GT is best considered as its own particular form of sub-regional economic cooperation carried out under the banner of 'Growth Triangle'. 'Growth Triangle', as a term to describe the spread of economic activity from Singapore into the contiguous territories of Johor and Riau, does not quite fit the definition of any one form of regional economic cooperation, for in effect it is the result of two separate processes which still characterise its current state.

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<sup>14</sup>Idea postulated at the International Conference on 'Managing the Mega-Urban Regions of ASEAN countries : Policy Challenges and Responses'. *Business Times*, 2 December 1992.

If the IMS-GT were to be described as the result of a spillover from Singapore into its less-developed hinterland, modifying the traditional centre-periphery model in that the spillover occurs across political boundaries, then this would aptly describe the processes which have occurred between Singapore and Johor. However, if the IMS-GT were to be described as a transnational export processing zone, whereby investments are induced to cross political borders because of a combination of geographical proximity and investment incentives, then this would characterise the integration processes between Singapore and Riau. What is clear is that the IMS Growth Triangle is a result of two separate yet complementary processes.

Whilst the IMS-GT is seen as a means of achieving more rapid economic integration, it is not a form of economic integration in the sense that a free trade area is, but rather a pooling of resources to attract investors who intend to market their products outside the region. For that reason cooperation appears potentially successful because it does not entail sharing of markets.

The IMS Growth Triangle is best seen as a single investment zone, to an extent transcending formal political boundaries, and cooperating to attract capital. It is investment driven, for it is investment capital which moves across borders to take advantage of differential factor availability and prices. The attraction is not preferential access to a domestic or subregional market, but efficient production and distribution systems which are competitive internationally for its export-oriented investors. The IMS-GT is a form of sub-regional economic cooperation, through investment cooperation rather than through trade cooperation. In time it may take on a different shape or form but in the short term this is highly unlikely.

Initially it was feared that the emergence of the IMS-GT would threaten ASEAN's status as a regional economic forum, especially if seen as a partial fulfilment of Indonesia's suggestion of a 'little ASEAN' involving closer economic and defence cooperation between Indonesia, Malaysia and Singapore. However, the IMS-GT has been accepted as a supportive mechanism of regional economic cooperation, and is not considered a threat to the ASEAN Free Trade Area (AFTA) but rather as an experiment in sub-regional integration within ASEAN.

The 'Growth Triangle' was officially recognised as a major step in sub-regional cooperation by ASEAN Economic Ministers in October 1990. This was mainly due to pressure from Singapore. Singapore Prime Minister Goh Chok Tong argued that,

The Growth Triangle implicitly recognises that any joint project within ASEAN could be undertaken by any two or three parties, as and when these parties are ready.<sup>15</sup>

At the fourth ASEAN Heads of Government Summit in Singapore in January 1992, a more important agreement was reached. The Framework Agreement on Enhancing ASEAN Economic Cooperation, which identified areas of potential cooperation such as trade, industry, finance and banking, transport and communications, also explicitly recognised the development of sub-regional growth areas, either within ASEAN or involving ASEAN and non-ASEAN states. In some ways the 'Growth Triangle' was ASEAN's immediate answer to other regional and sub-regional arrangements, such as the North American Free Trade Area (NAFTA), before the materialisation of AFTA.

Whilst the IMS Growth Triangle may not be the first economic area of its type in Asia, it certainly was the first in ASEAN and as a result has generated much interest in the formation of other 'Growth Triangles', in particular the 'Northern ASEAN' or 'Indonesia-Malaysia-Thailand (IMT) Growth Triangle' - involving contiguous areas of Indonesia, Malaysia and Thailand - and the 'East ASEAN Growth Area' - involving neighbouring areas of Indonesia, Malaysia, the Philippines and Brunei.<sup>16</sup> The Asian Development Bank is encouraging greater economic cooperation among Asian countries, especially 'growth triangles', by looking into the potential of such regional groupings, identifying suitable projects and financing some key projects to ensure success.<sup>17</sup> At this stage, however, the IMS-GT is the only substantive economic integrative activity taking place in ASEAN.

It is argued that the future of ASEAN lies in its economic achievements, and in many ways, the emergence of the IMS Growth Triangle was an important development, because it illustrated that small plans are much more likely to succeed than big ones, whilst it also had the effect of speeding up sub-regional and intra-ASEAN economic cooperation. In fact, AFTA and the IMS-GT have together become something of an international symbol of ASEAN economic cooperation, and a reflection of their increasing openness to the international economy through restructuring programs. However, it is difficult to come to any firm conclusion about the possible regional

<sup>15</sup>*Far Eastern Economic Review*, 20 June 1991, p25.

<sup>16</sup>Other proposals include a link up between Australia's Northern Territory with Indonesia's provinces of Irian Jaya and East Nusa Tenggara (*Indonesia Headlines*, 25 May 1993) and among countries of the Mekong River basin - Thailand, China, Laos, Myanmar, Cambodia and Vietnam (*Bangkok Post*, 27 April 1993).

<sup>17</sup>*Jakarta Post*, 12 April 1995.

impact of the IMS Growth Triangle, and as a particular form of sub-regional cooperation it should not be over-stated.

There are certainly doubts about whether the IMS-GT concept can be expanded or replicated, or even that this would be desirable, for not all proposals will have the same conditions. Indeed, there are a number of conditions upon which the IMS Growth Triangle is dependent, and these would presumably need to be present in other 'Growth Triangles'. These factors include : economic complementarity and differentials in factor endowments for the development of intense economic linkages, and to make cooperation mutually beneficial; geographical proximity so as to minimise transaction costs and transportation time; a favourable political and policy environment for the relaxation of regulations and restrictions on investment, trade and labour flows; reasonably well-developed infrastructure in order to to keep operating costs low; market access, because of the export-oriented nature of development; a capital-surplus state as a member or major investor, because otherwise it could at best only involve trade-based cooperation; the private sector as major investor; equitable benefits for all participants; and political will.

Most importantly, however, whilst the idea of a Growth Triangle, at least in theory, is very appealing because there appear to be potential economic gains, it must involve more than economic rationale or geographic proximity to make possible joint development of a subregion. For a Growth Triangle, or indeed any such economic cooperation to succeed, both economic logic and complementarity, as well as political will are needed, for the problems associated in straddling national boundaries are great. The fact that a Growth Triangle involves linking together contiguous areas of sovereign nations means that political rationale will be a determining factor, and cooperation will require strong political will to overcome mutual distrust if it is to succeed. Cooperation in whatever form is likely to succeed only if the benefits are clear and balanced between the participants.

The establishment of the IMS Growth Triangle has been seen as a market-driven response, however the term 'market' in Southeast Asia is a nominal one because governments often intervene to shape comparative, and competitive, advantage and market forces. Whilst the ideal concept of the Growth Triangle is that there is freedom of movement of goods, of services, of labour and harmonisation of policies, regulations and incentives, the role of government in promoting that freedom of movement and harmonisation as well as to deregulate administrative constraints on investment and in other areas is extremely important.

The state, and leading economic and political forces, have been instrumental in creating the IMS Growth Triangle through such means as policy changes, providing infrastructure, providing finance and capital, and manipulating spatial patterns of national resources. The IMS-GT is therefore a blend of government initiative and private entrepreneurship. For example, the March 1996 IMS-GT ministerial meeting was preceded by the signing of a Joint Business Council MOU, and a gathering of the private sector to discuss the region's needs, potential and opportunities for joint-ventures.<sup>18</sup>

Economic factors were not the only driving force behind the IMS Growth Triangle, for political factors have played an important part in its development. For those reasons, the IMS-GT offers an interesting case study as to the respective roles of the government and the private sector, for it was created by a mix of both government initiative as well as market-driven factors. The degree to which this mix of market forces and political intervention played in the creation of the Singapore-Johor and Singapore-Riau links differs greatly. Whilst the Singapore-Johor linkage was proposed largely in response to market forces, and official cooperation merely facilitated the already growing economic activity undertaken by the private sector, official policy was decisive in creating the Singapore-Riau side, where market forces were weak. Economic fundamentals of labour and land have been key factors, but the governments involved have actively engaged, directly or indirectly, in creating industrial infrastructure, setting in place supporting policies and fostering movement of companies.

### **Indonesia-Singapore Cooperation under the IMS Growth Triangle**

The IMS Growth Triangle constituted a strategy by which Singapore could maintain economic growth by giving it access to resources which it lacked, namely land and labour, whilst also contributing to Singapore's efforts to become a regional economic centre for activities like banking, management and consultancy. To attain this, Singapore required at least the passive consent of countries in the region whilst at the same time ensuring that they benefited from Singapore's growth.

Unlike during the 1970s and early 1980s, the Indonesian government appeared to have fewer doubts than Malaysia about the Growth Triangle, and more specifically Singapore's motives. Certainly the notion of the triangle made an enhanced Singapore presence in the Indonesian province more politically palatable for Jakarta. Many of those in government were supportive of Singaporean involvement in the development

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<sup>18</sup>Straits Times, 5 March 1996.

of Batam and other islands in Riau province. According to Population and Environment Minister Emil Salim,

Singapore is not a country to be afraid of. We expect to compete with them eventually, so why not use the Growth Triangle as a stepping stone to further growth in the meantime.<sup>19</sup>

Most importantly, however, the IMS-GT had the approval and support of Soeharto. Habibie, who had considerable say since he was in control of Batam Island announced that he favoured the Growth Triangle concept, particularly because it was closely in line with his balloon theory.<sup>20</sup> Radius Prawiro, Coordinating Minister for Economy, Finance, Industry and Development Supervision hailed it as a,

textbook example of how neighbouring countries can harness their goodwill and effort to solve common problems.<sup>21</sup>

With strong government support, Indonesia actively pursued cooperation with Singapore under the guise of the IMS Growth Triangle. It was originally envisioned that only Batam would be part of the IMS-GT, but the concept was soon extended to all of Riau and beyond. The main reason for the initial enthusiasm in Indonesia was that all the islands of the Riau archipelago, and not just Batam Island, were relatively underdeveloped, and the Indonesian government lacked adequate financial resources to allocate to their development. It was widely held in Jakarta that private sector participation and joint ventures with Singapore, and other countries, were necessary for infrastructure and economic development of Batam and other areas of Riau province. Soeharto described the IMS-GT as important for national development as well as that of its two neighbouring countries, and thus constituted a real effort to strengthen national and regional endurance.<sup>22</sup>

There were a number of factors behind Indonesia-Singapore cooperation under the IMS Growth Triangle, the origins of which were based on mutual economic interest, and aided by close ties between political leaders and economic elites. Firstly, cooperation was based on a win-win situation. Cooperation was made with the premise that the joint development of the Riau province would benefit Indonesia as well as Singapore. Indonesia offered its abundant natural resources of land and water, manpower, culture, and political stability. Singapore offered tourists, managerial and capital resources, and global business experience. For Singapore, the Growth Triangle was a means for overcoming land and labour constraints while enhancing its role as a regional centre of growth. Indonesia, with limited industrial and financial capital, could maximise the

<sup>19</sup>Far Eastern Economic Review, 3 January 1991, p35.

<sup>20</sup>He also added that they could learn from the cooperation of the Benelux countries. Straits Times, 12 June 1990.

<sup>21</sup>Business Times, 30 January 1993. Reuters Textline 30Jan93.

<sup>22</sup>Kompas, 20 February 1994.

flow of spillover benefits and could not fail to benefit from the presence on its doorstep of a concentration of industrial and technical facilities which could be harnessed for its own efforts at industrialisation and economic diversification.

It was clear that high level support was given to the Growth Triangle in Indonesia. Indonesia would not seek a relationship if it was not clear what benefits and contribution to its development would arise. As Indonesia had only recently adopted an export-led strategy, the IMS-GT provided a good way of demonstrating the potential of technocratic strategies to accelerate economic development. The Indonesian government hoped the Riau islands would become a new economic growth centre in Indonesia.<sup>23</sup> According to the Department of Industry, joint-projects under the auspices of the Growth Triangle offered several benefits. These included : an accelerated pace of economic development in Riau; direct employment creation of 150,000 jobs; indirect employment creation of 750,000 jobs; annual foreign exchange earnings of US\$1-2 billion; and, the expansion and deepening of industrial development.<sup>24</sup>

Whilst the primary aim of the IMS-GT - the development of Riau in cooperation with Singapore - has not changed, the Indonesian government is now focusing more on preparing other less-developed and contiguous areas for trade liberalisation committed to under AFTA.<sup>25</sup> Indonesia sees benefit in preparing less-developed areas for the impact of AFTA, and Soeharto is apparently keen to include the provinces of Bengkulu, South Sumatra, Lampung, Jambi and West Kalimantan in the IMS-GT.<sup>26</sup> According to Hartarto,

The involvement of more provinces in the sub-regional growth triangle's is urgent because we have only seven years before the implementation of free trade among the ASEAN countries.<sup>27</sup>

Secondly, cooperation in the development of Riau was reflective of increasing cooperation at all levels between Singapore and Indonesia. The forging of closer relations between Indonesian and Singaporean leaders had brought the two countries closer together, and although the relationship was dominated by the personalities of, and relationship between, Soeharto and Lee Kuan Yew, the institutionalisation of Indonesia-Singapore relations in security, military and economic fields played a major part. The rapid increase in Singapore's investments and the regular exchange of views

<sup>23</sup>Suara Pembaruan, 20 October 1992. Far Eastern Economic Review, 22 April 1993, p41.

<sup>24</sup>TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura.

<sup>25</sup>Straits Times, 5 March 1996. Reuters Textline 5Mar96. Former minister, Emil Salim, suggested that Indonesia open its border areas to investors from adjacent countries in order to prepare itself for AFTA. He urged government to allow companies from adjacent countries to set up investment projects in border areas without having to obtain BKPM licences - open North Sumatra to investors from Singapore, Malaysia and Thailand, and open Eastern Indonesia to investors from Northern Australia. Jakarta Post, 4 September 1995.

<sup>26</sup>Jakarta Post, 14 March 1996. Reuters Textline 14Mar96.

<sup>27</sup>Reuter News Service, 16 March 1996. Reuters Textline 16Mar96.

between Singapore and Indonesian officials, indicated a far more substantive relationship than was the case 20 years prior, and that ties would be sustained when Lee and Soeharto were gone. Singapore Deputy Prime Minister, Lee Hsien Loong, observed,

Each individual project makes sense but more than the individual projects themselves is a habit of cooperation between officials on both sides.<sup>28</sup>

Thirdly, economic imperatives were only one of the contributing factors for the Growth Triangle. For Singapore, economic interests were congruent with political and security interests, and the Growth Triangle was a project with the specific objective of securing its national interests; to secure its political survival as a sovereign nation state through the institutionalisation of links with neighbouring countries and to ensure continued economic prosperity. The expectation in Singapore was that greater degrees of interdependence would reduce possible threats to its security from economically jealous and ethnically different neighbours.

It is quite possible that Singapore used economic cooperation, in tandem with increased security cooperation, to cement much closer relations with Jakarta and possibly to neutralise Singapore's dependence on Malaysia.<sup>29</sup> Following a 1988 MOU between the Singaporean and Indonesian armed forces which formalised a broad base for cooperation, a series of cooperative and interactive measures were taken. There are now joint army, navy and air exercises, joint search and rescue operations, coordinated anti-piracy and anti-smuggling patrols, and stronger ties between police, immigration and drug enforcement officials. The two armed forces also jointly developed an Air Weapons Range at Siabu and an Air Combat Manoeuvring Range at Pekanbaru. In a twist of the Growth Triangle, this combines Singapore technology and investment capital with Indonesian geographical resources for mutual benefit.<sup>30</sup>

Moreover, as a city-state which lacks natural resources such as water, food and raw materials, the Growth Triangle provided a framework through which Singapore could secure strategic resources such as water, natural gas and agricultural products from Indonesia.<sup>31</sup> For Indonesia, increased cooperation with Singapore meant not only securing its immediate region through military cooperation but also markets for its

<sup>28</sup>Business Times, 30 January 1993. Reuters Textline 30Jan93.

<sup>29</sup>T.Huxley ; "Singapore and Malaysia : A Precarious Balance" , Pacific Review , Vol.4 No.3 (1991) , pp 204-213.

<sup>30</sup>Business Times, 26 August 1992. Straits Times, 4 February 1994. Straits Times, 25 May 1995. Business Times, 31 May 1995. Weatherbee, Donald E. ; "ASEAN and evolving patterns of regionalism in Southeast Asia" Asian Journal of Political Science, Vol.1 No.1 (June 1993), p 49. A.R. Sutopo ; "Relations among Indonesia, Malaysia and Singapore : From Confrontation to Collaboration and Re-alliance" Indonesia Quarterly Vol.XIX No.4, p 326.

<sup>31</sup> The continued shrinkage of agricultural land renders Singapore more reliant on foreign imports and alternative sources of food supply. Self-sufficiency in food was a short-lived idea in Singapore, and in 1985 the government decided to write off agriculture beginning with the phasing out of pig farms.

natural resources. Furthermore, stepped-up investment would enhance the interdependent relations between Singapore and Indonesia with the result that each would attach more importance to the security and stability of the other. President Soeharto observed that,

The development of the triangle of growth...will help strengthen resilience both in Indonesia and in the region.<sup>32</sup>

It was clear that Indonesia-Singapore economic relations were moving towards more complementarity, and developments in trade and investment had shown great progress. Furthermore, the relationship was being institutionalised through increased cooperation and contact between leaders from both countries. In addition, the national interests of both countries with regards to economic and political security were also served. With or without the Growth Triangle, economic and political ties between Indonesia and Singapore would continue.

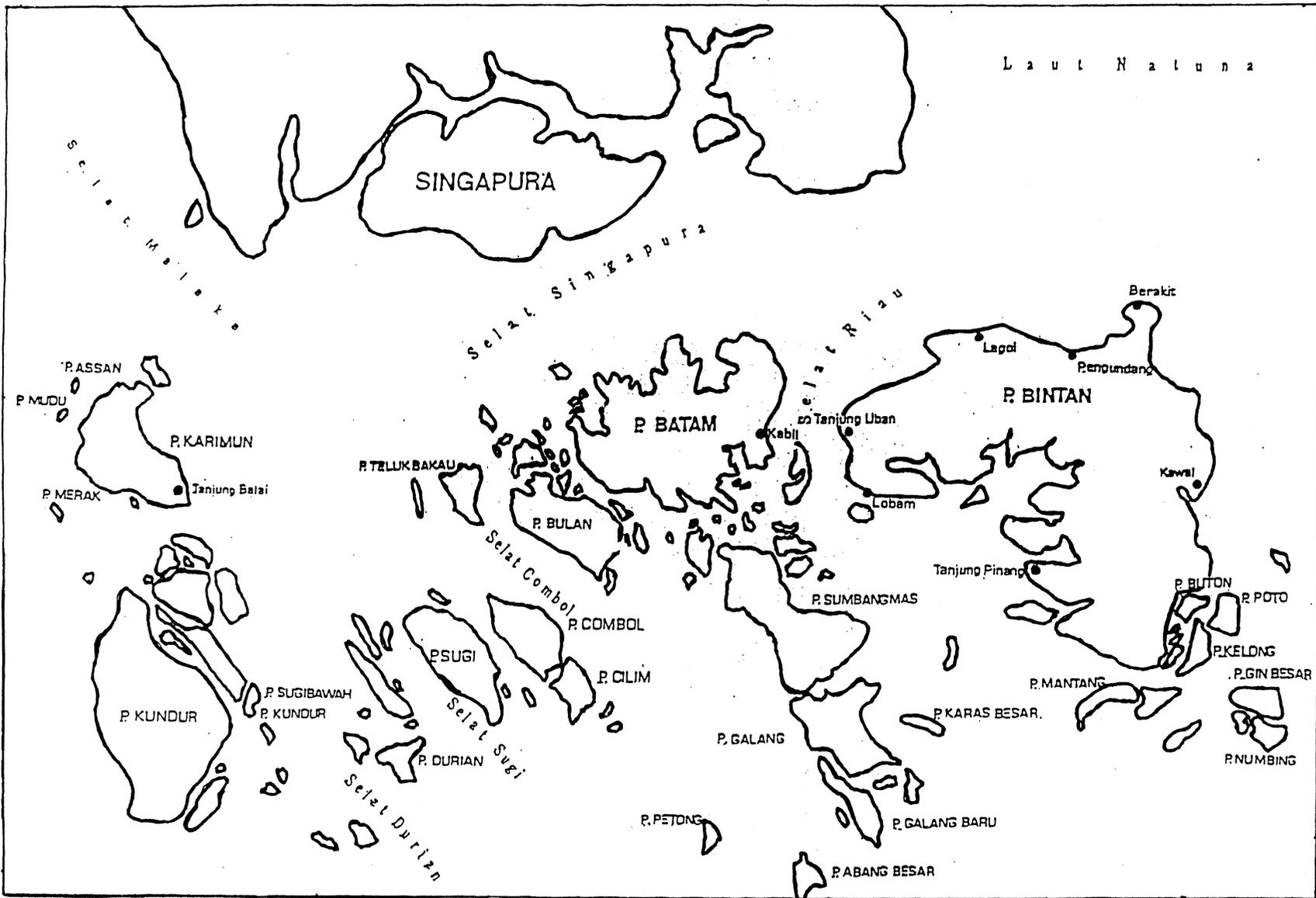
On 28 August 1990, President Soeharto and Prime Minister Lee Kuan Yew met on Batam Island and signed an agreement which has become the basis for all joint Indonesia-Singapore projects under the Growth Triangle. The Agreement on Economic Cooperation in the Framework of the Development of the Riau Province (or the Singapore-Riau Economic Cooperation Agreement) not only extended the Growth Triangle beyond Indonesia's existing special export zone on Batam Island to the whole of the surrounding Riau province, but explicit was the undertaking to jointly develop Riau province, with the understanding that joint development would be led by the private sector.<sup>33</sup> The agreement essentially aimed to reduce logistical and administrative barriers to investment and to foster joint participation in the development of infrastructure and marketing of the area.

Whilst the impetus for the Growth Triangle was due largely to private sector initiatives, various government policies also contributed. For instance, the adoption of a policy of joint promotion of investment and tourism attracted international investors. Cooperation under the Agreement was not confined to industrial delocalisation and specific joint projects, but included the marketing and promotion of the Growth Triangle concept for investment and tourism, as well as cooperation in supervisory,

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<sup>32</sup>Jakarta Post, 21 February 1994.

<sup>33</sup>A second agreement, The Agreement on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income was also signed, later formalised by Presidential Decree. Keputusan Presiden No.60 1990 (20 December 1990). One source says that it was another agreement that was signed - The Agreement on the Promotion and Protection of Investments, which supplemented the ASEAN Investment Guarantee Agreement, guaranteed bilateral investment and provided for Indonesia and Singapore to work together on promoting new inward investment. Indonesia Development News, Vol.14 No.2 (November/December 1990), p4.



Batam, Bintan, Karimun and Surrounding Islands

Map 7.1

administrative and regulatory procedures. Indonesia-Singapore government cooperation under the auspices of the Growth Triangle has included joint investment promotion missions<sup>34</sup>, joint tourism promotion<sup>35</sup>, and various joint committees, most important of which is the Joint Ministerial Committee for the Economic Development of Riau Province (JMC) which meets regularly to oversee developments and review the progress of joint projects.<sup>36</sup>

Whilst the setting of clear government policy direction and commitment was crucial in reducing investor risk and uncertainty, it was the formal agreement between Indonesia and Singapore that provided the necessary incentive for the private sectors from both countries and from overseas to invest in the Riau islands. In particular, official encouragement of joint ventures between public enterprises and private firms from Indonesia and Singapore in major investment projects served to enhance cooperation and the interlocking of interests among business groups from the two countries.

### Joint Indonesia-Singapore Projects under the IMS-GT

Within several years, total joint Singapore-Indonesia projects under the auspices of the Singapore-Riau Economic Cooperation Agreement, and the IMS Growth Triangle, required an investment of US\$10.3 billion over the long term. (See Map 7.1).

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<sup>34</sup>These include to Japan in December 1990 (Angkatan Bersenjata, 17 December 1990. Merdeka, 15 December 1990. Indonesia Development News, Vol.13 No.4 (September/October 1990), p4. Jakarta Post, 13 December 1990.), to Hong Kong, South Korea and Taiwan in September 1991 (Antara, 2 October 1991.), and in Singapore in September 1995. The Indonesia-Singapore Exhibition, 'Partners in Progress', focused on joint-ventures, in particular to showcase cooperation in the industrial development in Batam, Bintan, Karimun. Business Times, 5 September 1995. Straits Times, 5 September 1995. Business Times, 21 September 1995. Straits Times, 21 September 1995.

<sup>35</sup>Singapore and Indonesia's tourism bodies are working together to market Singapore and Bintan Island as a single tourist destination. Indonesia and Singapore agreed to form a high powered joint team of six cabinet ministers to handle cooperation in tourism. Under the cooperation the six million foreign tourists that visit Singapore annually are to be lured into visiting Indonesia as well, especially to Bintan. The Jakarta Post, 27 June 1994. A tourism cooperation agreement signed on 29 September builds on the success and relationship both sides established when developing and promoting tourism-related projects in the Riau - particularly the BBIR. It expanded cooperation beyond Riau to Lombok, Solo, Yogyakarta, Padang and Ujung Pandang. Straits Times, 30 September 1994.

<sup>36</sup>The first meeting took place in February 1991, attended by Singapore's Deputy Prime Minister, Brig. Gen. Lee Hsien Loong, Singapore's Minister of State for Industry and Trade, Mah Bow Tan, Junior Minister for Industry, Tungky Ariwibowo, and Coordinating Minister for Economic Affairs, Radius Prawiro. Jakarta Post, 8 February 1991. The third meeting was held in January 1993. Straits Times, 30 January 1993. The fourth meeting took place in December 1993, attended by Singapore Deputy Prime Minister, Lee Hsien Loong, Singapore Minister of State for Trade, Industry and Labour, Goh Chee Wee, Coordinating Minister for Industry and Trade, Hartarto, Minister of Tourism, Post and Telecommunications, Joop Ave, and Minister of Industry, Tungky Ariwibowo. Jakarta Post, 1 December 1993. Business Times, 29 November 1993. Business Times, 1 December 1993. The Straits Times, 1 December 1993.

Of the tourism and industrial projects on Karimun, Bintan and Batam Islands, Singaporean investors would eventually account for a 40% share. These joint projects include :

Batamindo Industrial Park	US\$350m.
Batamindo Executive Village	US\$60m.
Bintan Beach International Resort	US\$2,000m.
Bintan Industrial Estate	US\$350m.
Karimun Industrial Estate	US\$600m.
Karimun Marine Complex	US\$1,000m.
Bintan Island Water Project	US\$950m.
Sumatra Water Project	US\$5,000m. <sup>37</sup>

The Batamindo Industrial Park and Batam Executive Village have already been discussed in Chapter Six. The other projects are briefly summarised below.

#### **Bintan Beach International Resort**

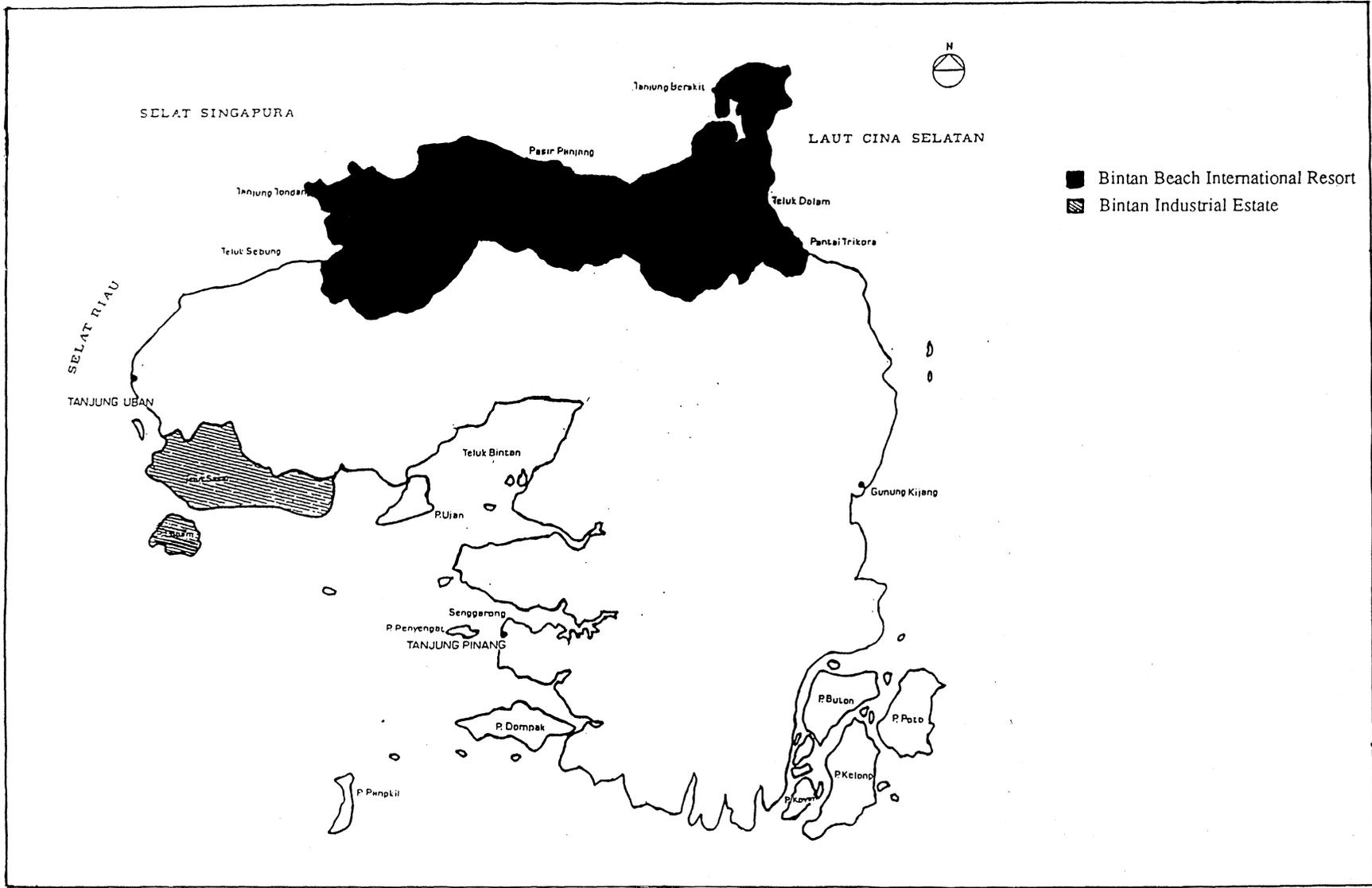
Launched on 1 March 1991, Bintan Beach International Resort (BBIR), is a S\$3.5 billion resort covering 23,000 ha. along an 18 kilometre beach coastline on the north coast of Bintan Island. BBIR promises a first-class holiday destination, comprising around 20 hotels and beach resorts, 10 golf courses, marinas, villas and condominium housing, cultural and shopping activities and recreational facilities, and is expected to take up to twenty years to complete.<sup>38</sup> (See Map 7.2)

PT Bintan Resort Corporation (BRC), majority (60%) controlled by Indonesia, is owner and developer of BBIR, and Bintan Resort Management Pte Ltd (BRM), majority (60%) controlled by Singapore, is marketeer and manager. The two companies are joint-ventures between Singaporean and Indonesian consortiums. The partners of the Indonesian consortium, PT Sukajaya Indowahana, include the Salim Group, Bimantara Group, Barito Group, Pemda Tingkat I Riau and the Yayasan Angkatan Laut (Navy Foundation). The Singaporean consortium, Singapore Bintan Resort Holdings Pte Ltd, is made up of Singapore Technologies Industrial Corporation, Tropical Resorts Pte Ltd, Straits Steamship Land, Overseas Union Bank, United Overseas Bank, Development Bank of Singapore, Overseas Chinese Banking and KMP Bincorp Investments.<sup>39</sup>

<sup>37</sup>Business Times, 20 July 1994.

<sup>38</sup>To better understand its size, Nusa Dua on Bali is only 300 ha. Jakarta Post, 5 February 1991. Jakarta Post, 2 March 1991. Far Eastern Economic Review, 14 March 1991. TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura.

<sup>39</sup>TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura. The Memorandum of Agreement was signed on 12 January 1991. Jakarta Post, 5 February 1991. Jakarta Post, 2 March 1991.



Location of Projects on Bintan Island

Map 7.2

Work on BBIR began in November 1991, and by mid-1995 the developers had spent S\$180m. on infrastructure - including the completion of a power station, telecommunications facilities, water reservoir, roads, ferry terminal, water treatment plants, as well as recreational facilities.<sup>40</sup> By mid-1995, private firms, led by the developers, had taken up 14 of the 18 land parcels offered in the first phase<sup>41</sup>, and work on eight resorts was in progress.<sup>42</sup> By 2000, there will be more than 14 hotels, offering 3,500 rooms for an estimated 1.5 million visitors.<sup>43</sup>

It is generally agreed that the tourism and hotel industry on Bintan will be better than that on Batam, particularly because it has better beaches and is a planned development.<sup>44</sup> There has been a lot of interest in BBIR, particularly because it has the support of both the Indonesian and Singaporean governments. BBIR is included in the Singapore Tourist Board's marketing, and fits into its aims to expand Singapore's tourist reach from a short-stay destination to becoming an integral part of a multi-destination travel market. Perhaps most importantly, apart from offering an attractive natural environment, those in the BBIR consortiums have taken the lead by taking equity in the hotels, many of them with an international reach into Asia, Australia and Europe.<sup>45</sup>

### **Bintan Industrial Estate**

The Bintan Industrial Estate (BIE), like its Batam namesake, is a joint venture between the Salim Group, Singapore Technologies Industrial Corporation (STIC), and Jurong Environmental Engineering (JEE), signed on 29 January 1993. PT Bintan Industrial Estate Corporation - Salim Group (70%), STIC (15%) and JEE (15%) - is the owner and developer, investing in the land and seeing to the development of factories, worker's housing and other amenities. Bintan Industrial Estate Management Pte Ltd - STIC (40%), Salim Group (30%) and JEE (30%) - is the estate designer, and responsible for marketing and managing the estate.<sup>46</sup> A subsidiary, Bintan Shipping and Warehousing provides shipping and warehousing facilities to tenants.<sup>47</sup>

<sup>40</sup>Witnessed by the author, 15 September 1994. S\$130m had already been spent on infrastructure, including S\$16m on road development project, S\$16m on ferry terminal, S\$39m on power generation plant, S\$26m on man-made lagoi reservoir, and S\$12m on 2,000 line telecommunications system. Straits Times, 14 March 1994. Straits Times, 19 July 1994. Straits Times, 5 June 1995.

<sup>41</sup>Straits Times, 20 February 1993. The Jakarta Post, 25 July 1994. Business Times, 20 October 1995.

<sup>42</sup>Straits Times, 5 June 1995. Business Times, 5 September 1995.

<sup>43</sup>31,182 tourists visited BBIR in 1995. Business Times, 28 February 1996.

<sup>44</sup>Interview with senior official of PHRI (Perhimpunan Hotel dan Restoran Indonesia or Indonesian Hotel and Restaurant Association).

<sup>45</sup>Interview with Hotel executive, 13 October 1994. Located 55 km southeast of Singapore, BBIR will be marketed together with Singapore as a single tourist destination. For instance, the Port of Singapore Authority has completed building the S\$229m Tanah Merah ferry terminal, adjacent to Changi airport, as a complement to the new Teluk Sebung ferry terminal at BBIR, and to act as the main entry and departure points for BBIR tourists. The trip takes 45 minutes. Straits Times, 21 April 1992. Reuters News Service, 10 November 1995. BRM is reportedly working closely with the Indonesian Tourism Promotion Board and the Singapore Tourist Promotion Board. Straits Times, 19 July 1994.

<sup>46</sup>Business Times, 20 January 1993. Business Times, 30 January 1993. BBC Monitoring Service, 3 February 1993. Reuters Textline 03Feb93. Jakarta Post, 20 February 1993. Straits Times, 8 January 1994. A Salim Group

Whilst Batam Industrial Park (BIP) caters to electronics-related industries, Bintan Industrial Estate (BIE) provides facilities for light and medium industries, especially labour-intensive resource-based industries such as textiles and garments, furniture, woodworking, footwear, food processing and packaging, toy manufacturing as well as electronics. Tenants at BIE are also provided the same conditions as in BIP, such as 100% foreign ownership for the first five years of operation, and duty-free bonded status.<sup>48</sup>

Eventually covering 4,000 ha (eight times the size of BIP), and costing S\$200-250 million to develop, the entire industrial estate will be completed in four to five phases over six or seven years, depending on market demand. (See Map 7.2). Like BIP, BIE provides all infrastructure - port and ferry terminal, water, roads, sewerage, electricity, telecommunications, housing and town centre. Work began on the first phase in February 1993, at an estimated cost of S\$60 million and covering 55 ha., with 20 ready-built factories, 10 one-hectare lots for custom-built factories, as well as a deep-water cargo and container port, and is expected to employ about 6,000 workers when the factories are in full swing.<sup>49</sup> In mid-1994, garment-maker Gimmil Industrial, a subsidiary of the Ramatex Group, became the first tenant to begin operation, with an investment of S\$3.6m and employing 300 workers.<sup>50</sup> By late-1995, 15 tenants had signed up, nine of whom were already in operation.<sup>51</sup>

### **Karimun Industrial Estate and Karimun Marine Complex**

Exact details about projects on Karimun Island are unclear. Planned developments include the building of a Marine Base, including a shipyard, an Oil Terminal and Processing Complex, and an Industrial Estate for heavy industry. (See Map 7.3).

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company, PT Suraya Bangan Pertiwi, holds the land on which the industrial estate is sited. Jakarta Post, 13 December 1990.

<sup>47</sup>Economic Bulletin, July 1994.

<sup>48</sup>Straits Times, 20 February 1993. Bintan Industrial Estate Management Pte Ltd : Bintan Industrial Estate. TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura.

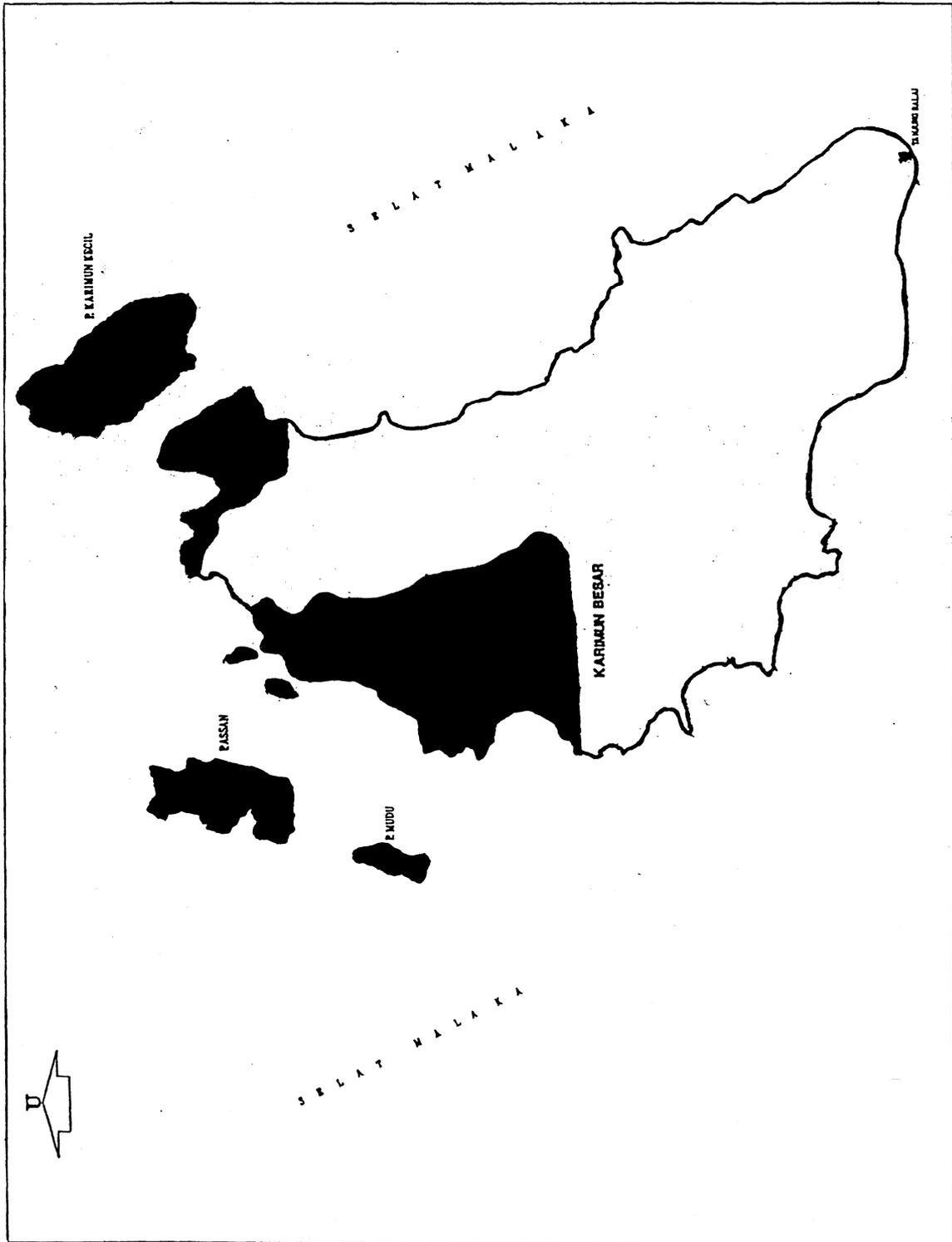
<sup>49</sup>Business Times, 20 January 1993. Reuters Textline 30Jan93. Wages range between Rp 105,000 and Rp115,000 a month according to level of schooling. Bintan Industrial Estate Management Pte Ltd : Bintan Industrial Estate.

<sup>50</sup>Business Times, 8 February 1994. Straits Times, 18 July 1994. Many of its workers were trained in Singapore under the Regionalisation Training Scheme introduced by the EDB. Singapore Investment News, July 1994.

<sup>51</sup>Business Times, 10 November 1995. By February 1993, seven Singaporean and other foreign firms had signed letters of intent to set up factories at BIE, reaching ten by December 1993, and thirteen by July 1994, worth some S\$250m. of investments. Business Times, 20 February 1993. Reuters Textline 20Feb93. Jakarta Post, 1 December 1993. Singapore Investment News, July 1994. The Jakarta Post, 25 July 1994. Economic Bulletin, July 1994. Ten of the companies, mostly garment manufacturers, were from Singapore, two from Hong Kong, and one from Japan. The Jakarta Post, 20 July 1994. Mizuno Corporation, a Japanese sporting goods manufacturer, became the first company outside Indonesia and Singapore to lease a factory, as its first overseas base for manufacturing shoes. With an investment of Y100m., it planned to begin operations in January 1995, with an initial annual production of 500,000 to 1,500,000 pairs of shoes. IIJI Press Newswire, 7 October 1993. Reuters Textline 07Oct93. Bintan Industrial Estate Management Pte Ltd : Bintan Industrial Estate. A negative report appeared in Nikkei Weekly, 22 July 1996.

### Map 7.3

#### Land Earmarked for Projects on Karimun Island



Among the Indonesian companies developing the site are PT Bangun Cipta, the Salim Group, the Indonesian Navy Foundation and Pemda Riau. Singaporean companies include the Sembawang Group, Jurong Environmental Engineering and Singapore Technologies Corporation. Sembawang's PT Karimun Sembawang Shipyard is expected to open in late-1996 at the Karimun Marine Industries Complex.<sup>52</sup>

In addition to new shipyard and petrochemical projects, the government continues to support the mining industry, although tourism is also growing. Several new granite quarries were set up in the early 1990s to make up for an anticipated shortfall in supply in Singapore after the Singapore government announced plans to gradually phase out local quarries. In 1990 there were 7 granite mining businesses in operation, and a further 6 surveying, many of them joint ventures between Singaporean and Indonesian companies.<sup>53</sup> Known for its high quality, Karimun provided around five million tonnes of granite to Singapore in 1992.<sup>54</sup>

### Riau Water Projects

Discussions between Singapore and Indonesia about the development of water resources in Riau province for sale to Singapore first began when Lee and Soeharto met in October 1989.<sup>55</sup> An agreement to jointly develop water resources in Riau, and to provide water to Singapore, was signed on 28 June 1991. The agreement is valid for more than 50 years, extendable, and will eventually result in the development of up to 4,000 million litres per day.<sup>56</sup> Two projects have since begun under the umbrella agreement.

The first project agreed to was the development of facilities on Bintan Island to provide a water supply of around 121 million gallons a day, half of which is allocated and to be sold to Singapore, and the remainder to serve the needs of Bintan. The Riau provincial government allocated at least 43,000 ha. of protected land on the island as a water

<sup>52</sup>Business Times, 13 June 1996. Straits Times, 1 August 1996.

<sup>53</sup>Merdeka, 27 August 1990.

<sup>54</sup>Business Times, 27 April 1992. Output is also being marketed on Bintan and Batam where demand was forecast to increase from 11m tonnes in 1992 to 14m tonnes in 1993. Chemical Business Newsbase, 30 July 1992. Reuters Textline 30Jul92.

<sup>55</sup>The first concrete step was taken in April 1990 when several Singaporean officials, including the Minister for Health, Minister for Labour and the Assistant Minister for Foreign Affairs, visited Riau to sound out the possibility of importing water from Indonesia. Accompanied by Junior Minister for Industry, Tungky Ariwibowo, they considered two main locations - Bintan Island and Burung Island. Whilst Burung Island was preferred - despite the need for the water to be processed because it was brackish and muddy in colour, the water deposits were far greater - Bintan Island was chosen because of its close proximity to Singapore. Suara Pembaruan, 2 May 1990.

<sup>56</sup>The agreement was formalised by Presidential Decree. Keputusan Presiden No.32 1991, (18 July 1991). The agreement was an exception because according to the Agrarian Law, Hak Guna Usaha only valid for 35 years. LIPI ; Kerjasama SIJORI dalam perspektif kepentingan nasional Indonesia, p 37. Singapore will finance the bulk of the US\$5.9b needed to develop the water resources. Business Times, 20 July 1994. State Secretary, Murdiono, pre-empted that this would be the case when he announced that Singapore would have to bear the burden of financing the project because of budgetary constraints in Indonesia following discussions held in late 1989. Straits Times, 24 November 1989.

catchment area, to be developed and maintained by the state-owned forestry company Perhutani.<sup>57</sup> The project will take fifteen years to complete, cost around S\$1 billion, and involve the construction of 5 dams, a water treatment plant and the installation of underwater pipes from Bintan to Singapore.<sup>58</sup>

Two Singapore-Indonesia joint-ventures were established in March 1992 to develop the project. A Singaporean-led joint venture company, PT Bintan Tirta, will build dams, pumps and other infrastructure and supply water to Singapore. An Indonesian-led joint venture company, PT Bintan Karya Bersama, will be local supplier and distributor, and manager of the resources.<sup>59</sup> The Singaporean consortium in the joint ventures includes the Public Utilities Board, while the Indonesian Consortium, PT Riau Setia Perkasa, is owned by the Salim Group (87.5%) and Perusahaan Daerah Sarana Pembangunan Riau, a BUMD (local-government-owned corporation, 12.5%).<sup>60</sup>

A second project, based on a Memorandum of Understanding signed on 29 January 1993, will supply Singapore with 600 million gallons of water per day from the Kampar River Basin on Riau mainland. Feasibility studies, made jointly by Singapore's Public Utilities Board and Indonesia's Ministry of Public Works, have been completed but the project is yet to start.<sup>61</sup>

By mid-1994 little progress had been made on the Bintan water project - it was one and a half years behind schedule - leading to the creation of a joint Singapore-Indonesia task force to resolve issues which had caused the delay, attributed to land and dam problems caused by the resettlement of residents affected by the project.<sup>62</sup>

### **Bulan Island**

Whilst Bulan Island is not officially part of joint Indonesia-Singapore cooperation, it is often included as part of the Growth Triangle, and the projects are worth mentioning because of the strong Singaporean content and orientation. In fact, the creation of the pig farm on Bulan Island in 1986 was the first example of Singapore-Indonesia

<sup>57</sup>The Jakarta Post, 22 June 1991. Surat Keputusan Menteri Kehutanan Nomor 955/Kpts-II/92.

<sup>58</sup>The Jakarta Post, 22 June 1991. The Jakarta Post, 1 July 1991. The Jakarta Post, 3 July 1991. Tempo, 6 July 1991. Indonesia Development News, Vol.14 No.6 (July/August 1991), p10.

<sup>59</sup>It had apparently already been determined that the project would be undertaken by the private sector, not by PAM (Perusahaan Air Minum), and that there was a good chance that it would fall to the Salim Group. Tempo, 28 April 1990. TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura. Mari Pangestu ; "An Indonesian Perspective" , in Lee Tsao Yuan (ed) Growth Triangle : The Johor-Singapore-Riau Experience, p81.

<sup>60</sup>LIPI ; Kerjasama SIJORI dalam perspektif kepentingan nasional Indonesia, p 37. Pemda was included in the project because water is a provincial right, and therefore the local government must be involved in its management.

<sup>61</sup>TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura. Business Times, 30 January 1993. Suara Pembaruan, 30 January 1993.

<sup>62</sup>Straits Times, 20 July 1994. Business Times, 20 July 1994. Kompas, 20 July 1994.

cooperation in the Riau islands and the precursor to joint cooperation on Batam and Bintan.<sup>63</sup>

The Salim Group has leased the rights to the entire island of Bulan and converted over 10,000 ha. into an integrated agribusiness operation which includes pigs, crocodiles, chickens, shrimp, flowers and fruit trees.<sup>64</sup> The main business is the commercial pig farm, set up with Singapore government support as Singapore was delocalising pig farms from Singapore through a phase-out program as an anti-pollution measure.<sup>65</sup> The pig farm is owned by PT Sinar Culindo Perkasa, with majority control shared by Anthony Salim, through Singapore-based company Kabila Mandiri Persada (KMP) Pte Ltd, and United Industrial Corporation of Singapore, and smaller stakes held by Harry Murdani, the brother of former Indonesian Defence Minister Benny Murdani, and Timmy Habibie.<sup>66</sup>

### Singkep Island

The Indonesian government has been exploring opportunities for joint Indonesia-Singapore projects on Singkep Island. One advantage of developing Singkep was that assets such as a workforce and basic infrastructure were already in place, built and paid for by the state mining company, PT Timah, which had abandoned its mining operations because of declining world tin prices and low productivity.

Following the drafting of an interdepartmental study on development and employment prospects, ten cabinet ministers visited the island in May 1991, and various proposals for Singkep's development were put forward. Habibie envisaged a bonded area for the storage of equipment for off-shore oil industries, for warehouses, an oil refinery and distilling centre. Minister for Mines and Energy, Ginandjar Kartasasmita, announced that he intended to offer Singkep to Singaporean investors to be managed as an industrial estate like Batam and Bintan.

<sup>63</sup>Interview with former Singapore minister, Goh Keng Swee, 29 September 1994. Interestingly, Bulan Island had previously been kept in reserve for the future expansion needs of Batam Island. Interview with former BIDA Vice-Chairman, Hernomo, 22 August 1994. It has been incorrectly suggested that Bulan Island was a concession to the Salim Group for its heavy involvement in other projects in Riau. *Tempo*, 7 September 1991.

<sup>64</sup>One example of the integration is that fruit and orchid plantations are fertilised with manure collected from the pig farms, and the crocodiles fed on pigs which die before making it to the slaughterhouse. The orchid plantation is owned by Piranti Gemilang, a Salim joint venture with Singapore flower company Wellington. *Indonesia Development News*, Vol.11 No.3 (January/February 1988), p4. *Far Eastern Economic Review*, 18 October 1990. *Far Eastern Economic Review*, 14 March 1991.

<sup>65</sup>Philippe Regnier; *Singapore: City-State in Southeast Asia* (S.Abdul Majeed & Co., Kuala Lumpur 1992), p 77. *Straits Times*, 16 March 1984. Interview with former Indonesian Ambassador to Singapore, Sujatniko, 24 August 1994.

<sup>66</sup>Eddy Soetriyono; *Kisah Sukses: Liem Sioe Liong* (Indonmedia, Jakarta 1989), p 119. *Far Eastern Economic Review*, 18 October 1990. In addition to increasing production from 180,000 to 300,000 heads a year by 1995, mainly for the Singapore market and accounting for around 10% of Singaporean demand, they are also setting up a S\$30m. joint venture abattoir as part of a recent expansion. *The Jakarta Post*, 17 June 1994.

However, it appears that the private sector has been reluctant to open business on Singkep, mainly because infrastructure remains rudimentary. A Singapore business was reportedly interested in opening a shipyard, but failed to go ahead with the plan because the ideal location was distant from electricity and clean water supplies. Moreover, researchers from the University of North Sumatra concluded that Singkep was not suited to agriculture.<sup>67</sup>

### **The IMS-GT and Indonesia's Development Strategy**

The spread of economic cooperation between Singapore and Indonesia from Batam Island to other areas in the Riau archipelago under the auspices of the IMS Growth Triangle was to expose divisions within the Indonesian government about the most appropriate development strategy that should be adopted. In particular, at the centre different views were held about exactly which niches in the technological spectrum should be occupied by each island.

That the development scenarios for Batam, Bintan and other islands would be different was clear from the beginning. It was then Coordinating Minister for Economics and Finance, Radius Prawiro, and not Habibie, who invited Singapore to assist in the development of Bintan in 1990.<sup>68</sup> Radius took a deliberately different approach from Habibie, whereby Bintan would be more complementary to, and less in competition with, Singapore, and developments would be almost entirely private-sector led.<sup>69</sup> Other Indonesian ministers have since included their own development projects in particular parts of Riau under the auspices of the Growth Triangle and joint Indonesia-Singapore cooperation - Minister of Mines and Energy, Ginandjar Kartasasmita, has added Singkep Island, and Coordinating Minister for Industry, Hartarto, has added Riau mainland and West Sumatra.<sup>70</sup>

The result has been that the Riau islands are divided into different areas of control - Habibie and BIDA are in charge of Batam Island and the Bareleng extension, the Ministry of Industry oversees projects on Bintan and Karimun Islands, Galang Island is under the Ministry for Defence and Security, Singkep Island is under the Ministry for Mines and Energy, while the rest of the Riau archipelago remains the preserve of the Governor and the Riau provincial government. The result has been a lack of

<sup>67</sup>Jakarta Post, 8 February 1991. Straits Times, 3 April 1991. Suara Karya, 25 April 1991. Jakarta Post, 4 May 1991. Suara Pembaruan, 23 July 1991. Suara Pembaruan, 24 August 1991. Tempo, 7 September 1991. Kompas, 20 May 1992. Suara Pembaruan, 24 June 1992. Kompas, 24 September 1994. Mubariq Ahmad; "Economic Cooperation in SIJORI Growth Triangle: An Indonesian Perspective", *Ekonomi dan Keuangan Indonesia*, Vol.40 No.4 (1992), pp 415,430.

<sup>68</sup>Forum Keadilan, 22 December 1994.

<sup>69</sup>Interview with Radius Prawiro, 29 July 1994.

<sup>70</sup>Forum Keadilan, 22 December 1994.

consistency of policies and in the implementation of a single coordinated developmental strategy. This is clear when looking at Batam, Bintan and Karimun Islands where a division of development scenarios has now developed - Batam Island is designated for electronics and technology-based industries, Bintan is for leisure and light to medium industries, and Karimun is for shipyards, petrochemicals and heavy industry.

Whilst the development of Batam Island has remained firmly under the control of Habibie and BIDA, the development of Bintan Island is strictly the preserve of the Ministry of Industry, and managed by a body quite different in style from BIDA. The TKPPR (Tim Koordinasi Pembangunan Propinsi Riau or Riau Industrial Development Agency) was formed in July 1990 to function as a one-stop service agency for investors on Bintan and Karimun Islands, and to coordinate policies, programs and development for all projects in Riau Province outside BIDA's working area, under the auspices of the Indonesia-Singapore Economic Cooperation Agreement signed in August 1990.<sup>71</sup> The TKPPR is overseen by the Coordinating Minister for Trade and Industry, its office headquartered in the Industry Ministry's building, with a branch on Bintan, and is staffed by representatives from various ministries.<sup>72</sup>

Whilst the Vice-Chairman of both BIDA and TKPPR is the same person, the Junior Minister of Industry Tungky Ariwibowo, little is mentioned of BIDA-TKPPR cooperation, and despite Tungky's seemingly high-ranking position, it does not appear to have led to effective coordination of the two bodies. In many ways the extension of BIDA's working area through the creation of Bareleng appeared to have been a reaction to the formation of the TKPPR, governing Bintan and Karimun Islands, since BIDA's mandate was to reduce its role and withdraw from Batam, not to expand its role or authority.

When plans for the development of Bintan were released, Junior Minister for Industry Tungky Ariwibowo announced that the Indonesian government would not match the facilities given to investors in the Riau Islands with Batam because the two were designed for different purposes.

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<sup>71</sup> Keputusan Presiden No.31 1990 (25 July 1990).

<sup>72</sup> The membership and organisation of the TKPPR has undergone several changes. See Keputusan Presiden No.32 1993 (3 May 1993). Keputusan Presiden No.33 1993 (2 June 1993).

According to Tungky, the government had different development concepts for the Riau Islands - manufacturing industries and tourism on Bintan and Batam, and agro-based and petrochemical industries on other islands and the Riau mainland.<sup>73</sup> That there would be a difference between the manufacturing industries on Batam and Bintan Islands was clear.

Batam and Bintan are complementary. [Batam] is for high-technology and [Bintan] is for low to middle technology.<sup>74</sup>

Tungky also announced that Jakarta would not interfere in the operations of foreign investors but would provide a suitable business environment because Bintan was to be built by the private sector, clearly delineating the difference with Batam Island which was dominated by government investment.

Up until now in Indonesia, infrastructure has been built by the government, but for the development of Bintan all of it will be done by the private sector.<sup>75</sup>

However, Tungky's stance came into conflict with Habibie's desire for the Riau islands to be developed into a world-class high-tech centre.<sup>76</sup> In April 1993, Habibie announced that not only Batam, but also Bintan Island, was earmarked for high-technology and high-value-added industrial operations, and that like Batam Island, Bintan was closed to the manufacturing of textiles, furniture, shoes and garments.<sup>77</sup> Habibie also said that he had his own concept for the development of Bintan Island, but did not elaborate, only to say that,

Batam and Bintan are to be developed based on a regional scenario, not on a national scenario.

This is the basic idea for developing the islands.<sup>78</sup>

Habibie's comments quickly provoked questions about the status of Bintan Island, and it was widely reported that Singaporean officials and businessmen were adopting a wait and see attitude for Indonesian policy on low technology industries on Bintan.<sup>79</sup> Not only was there a perception that Habibie's policies would receive greater weight in the future in the Riau Islands, but Habibie's comments reflected his desire to stamp his mark on the direction of economic development in Indonesia. As a result, Habibie's comments drew a sharp response from other members of the Indonesian government.

<sup>73</sup>Bisnis Indonesia, 29 June 1990.

<sup>74</sup>Republika, 20 February 1993.

<sup>75</sup>Suara Karya, 8 February 1991. See also Straits Times, 20 February 1993. Suara Karya, 20 February 1993.

<sup>76</sup>Kompas, 7 February 1991.

<sup>77</sup>Antara, 17 April 1993. The Jakarta Post, 19 April 1993.

<sup>78</sup>Straits Times, 20 April 1993.

<sup>79</sup>Straits Times, 23 April 1993. Merdeka, 24 April 1993.

Within a fortnight, BKPM Chairman Sanyoto Sastrowardoyo, after a meeting with President Soeharto and Habibie, announced that there had been no change to Indonesia's long-standing policies concerning the development of Bintan and the kind of industries which would be welcomed on the island, stressing that Indonesia would abide by the understandings and agreements reached between Singapore and Indonesia on Bintan's development.

It is true that Batam is closed for factories which produce high levels of pollutants and need a lot of water such as those for the manufacturing of rattan and wood furniture, ships, shoes, toys and garments. But Bintan is not entirely closed to manufacturers of such products.<sup>80</sup>

The announcement, a clear response to concerns that Habibie's statement signalled a change in Indonesia's policy on Bintan, aimed to correct the 'misunderstanding' that Indonesia would not allow labour-intensive operations on Bintan Island. Sanyoto was also reported as saying that Indonesia needed every kind of industry regardless of whether it was labour-intensive or capital-intensive.

I do not think that it is possible to stick to any one particular type especially when we have to think about creating jobs for 2.5 million people annually. That is why we would welcome any type of industry.<sup>81</sup>

Sanyoto did add conditions of his own - whilst low-tech industries would be allowed, they must source as much as possible, raw materials from Indonesia, as well as employ the local workforce.<sup>82</sup> However, Sanyoto's reply also reflected the technocratic view in the government that it was not necessary to limit the types of industries on Bintan Island because its development was being carried out predominantly by the private sector.

Habibie appeared to accept, and only because of the intervention of Soeharto, that Bintan Island was for those industries not allowed on Batam. However, the separation of the development strategies of Batam and Bintan continued to be a point of contention, and competition. In July 1994, BIDA served notice on at least 60 small garment manufacturers operating out of shophouses on Batam Island to cease operations by mid-September, maintaining that they had no legal permit to operate on the island, and suggested that they could set up operations on Bintan Island. According to the local association, at least 3,500 employees would lose their jobs because of the closure.<sup>83</sup>

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<sup>80</sup>The Jakarta Post, 3 May 1993. See also comments by Tungky Ariwibowo in Kompas, 3 May 1993.

<sup>81</sup>The Straits Times, 3 May 1993. See also Business Times, 4 May 1993.

<sup>82</sup>Bisnis Indonesia, 3 May 1993. See also Kompas, 3 May 1993.

<sup>83</sup>Straits Times, 30 July 1994. Business Times, 13 September 1994.

The move was in line with BIDA's long-standing policy to discourage low-technology labour-intensive and polluting operations, and promote Batam as a hub for high-tech and high value-added industries. The argument was that it had been costly for the government to establish infrastructure on the island, and that it would be unfortunate if it was used by industries like garments which have a low added-value content. Electronics industries with labour-intensive production lines were welcomed because such industries produced value-added products as well as ensured transfer of technology. Whilst BIDA had long been opposed to industries such as garment-manufacturers, the move indicated that it was going to enforce the policy more effectively. According to the BKPM, there was no government stipulation that barred labour-intensive operations on Batam but that BIDA had the authority to prohibit industries which it considered would affect the environment and resources on the island.<sup>84</sup>

BIE organised a visit to its industrial estate on Bintan Island in August for the garment manufacturers and invited them to set up operations, even dedicating a flatted factory to be partitioned for their use.<sup>85</sup> Already Bintan was preferred by the small and medium-sized enterprises in the SMA (Singapore Manufacturers Association) because of Batam's pollutive and negative list.<sup>86</sup> However, whilst BIE was created as an alternative for those who desired a lower cost base than Batam, in late 1995 BIE began wooing electronics manufacturers because of a cooling of interest of Singapore-based garment manufacturers due to uncertainty over new export rules imposed by the USA. The new rules required that textiles and garments be assembled in Singapore to qualify for export quotas, when they previously had required that only the cutting process be done in Singapore, thus allowing manufacturers to shift assembly work offshore.<sup>87</sup>

Bintan has one important advantage over Batam - the daily minimum wage on Bintan in 1995 was Rp3,150, less than half of that on Batam.<sup>88</sup> As a result there was no reason why electronics companies would not be more attracted towards Bintan than Batam, especially if the costs of doing business on Batam continued to rise. For some time the BKPM stood in the way of electronics companies investing on Bintan by supporting Habibie's plans for Batam and not issuing investment licences for electronics

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<sup>84</sup>Straits Times, 30 July 1994. Business Times, 13 September 1994.

<sup>85</sup>By September 1994 none had taken up the invitation. Straits Times, 13 September 1994. Bisnis Indonesia, 13 September 1994.

<sup>86</sup>Interview with BIP Executive, October 1994.

<sup>87</sup>Business Times, 10 November 1995.

<sup>88</sup>Straits Times, 9 December 1993. One report puts the wage difference at S\$60 a month on Bintan and S\$220 a month on Batam. Reuters News Service, 10 July 1995.

manufacturers on Bintan.<sup>89</sup> However, in mid-1996, BIE received its first electronics tenant, indicating that the BKPM's position had changed.<sup>90</sup>

Habibie's development strategy also clashed with plans for the shipyard on Karimun Island. In April 1992, more than six months after plans had been announced to develop the Karimun facilities, the shipyard industry and container ports were included in a negative list of investments on Karimun and Bintan.<sup>91</sup> One of nine strategic industries, shipyards were closed to foreign and domestic private investment in Indonesia, and confined to the control of the Habibie-led BPIS (Badan Pengelola Industri Strategis or Strategic Industries Management Agency). Moreover, the building of the container port on Karimun clashed with Habibie's long-held ambition to develop the giant Asiaport on Batam Island.

It was suggested in Indonesia that Singapore wanted to establish a shipyard industry on Karimun because its own coastal areas were full.<sup>92</sup> Indeed it appeared that the main target of Singaporean investors on Karimun was the shipyard business rather than the integrated petroleum-based industrial complex, for it was difficult to imagine that Singapore would be helping to develop a competitor while its own oil industry was still being expanded and developed. However, its strategic position only 40 km from Pulau Bukom, Singapore's primary oil terminal and processing centre, and the fact that Singapore was involved in the project, suggests collusion rather than competition.

It appears that the rules were relaxed for Karimun, for it would be difficult to imagine a 6,000 ha. industrial estate without container port facilities. Projects are finally getting off the ground, more than four years after first mooted. It is clear that the restrictions placed on the project were instigated by Habibie, despite the project having the support of other ministers within the Indonesian government, and it was those restrictions which caused the long delays in getting it off the ground. What caused the turn-around is not clear. Certainly the EDB played a key role in getting the project off the ground. It was suggested that things picked up when Philip Yeo, Chairman of the EDB and strong supporter of developments on Batam Island, became Chairman of the Sembawang Group, one of the Singaporean partners in the project.<sup>93</sup> That the two main Indonesian investors were the Salim Group, close to President Soeharto, and the Bangun Cipta Group, headed by Minister for Housing, Siswono Yudohusodo, also suggests that there

<sup>89</sup>Interview with BIP Executive, September 1994.

<sup>90</sup>*Business Times*, 28 May 1996.

<sup>91</sup>Mubariq Ahmad ; Economic Cooperation in the Southern growth Triangle : AN Indonesian Perspective" in Toh Mun Heng and Linda Low (eds) *Regional Cooperation and Growth Triangles in ASEAN*, pp 106-7, 112-3.

<sup>92</sup>*Kompas*, 30 January 1993.

<sup>93</sup>*Lloyd's List*, 7 August 1993. Reuters Textline 07Aug93. *Business Times*, 19 September 1994.

was opposition to Habibie's stance at the most senior levels of the Indonesian government.

Despite divisions within the government, the policy environment for Bintan and Karimun Islands has slowly been brought into line with that on Batam Island. Further to the agreements signed between the governments of Singapore and Indonesia, a number of regulations have been issued to promote and enhance development projects in the Riau Islands, in particular the provision of a duty-free bonded status and special land tenure of 80 years. It is important to note that these facilities are granted only on a case-by-case basis, and currently pertain only to the projects described above.

The most important series of regulations followed a Presidential Instruction in 1992 which instructed several senior ministers to take specific steps to support development of Riau Province under the framework of Singapore-Indonesia cooperation - the Chairman of the BKPM was instructed to allow 100% PMA investment, the Head of the BPN to provide for long-term land tenure, and the Minister of Finance to provide exemptions on various goods and materials from tax and duties.<sup>94</sup> These regulatory changes were swiftly carried out by the ministries concerned.<sup>95</sup>

It is clear that the two development areas of Batam and Bintan/Karimun are in competition, not just as opposing development scenarios, but because the spreading of the Growth Triangle area beyond Batam has created a buyers' and no longer a sellers' market, providing investors with a choice about where to set up their industries. Habibie and BIDA claim that Bintan relies on Batam's facilities, and that Bintan is the next balloon to be inflated under Habibie's scenario.<sup>96</sup> However, and to take Habibie's balloon theory a step further, to even out the inflating inputs and to inflate several balloons simultaneously may in fact slow down the growth of each balloon.

<sup>94</sup>Instruksi Presiden No.4 1992 (19 September 1992). Exemptions on all materials, equipment and machinery used for the construction and operation of development projects include : bea masuk, bea masuk tambahan, Penangguhan Pajak Pertambahan Nilai - Value added Tax), Pajak Penjualan Atas Barang Mewah (Luxury Goods tax), and Pajak Penghasilan Pasal 22- Income Tax). These changes essentially made those areas determined as part of Indonesia-Singapore cooperation a duty-free zone.

<sup>95</sup>For information on tax exemptions see Keputusan Menteri Keuangan No.1071/KMK.00/1992 (14 October 1992). Keputusan Menteri Keuangan No.1072/KMK.00/1992 (14 October 1992). Keputusan Menteri Perdagangan No.05/Kp/I/93 (12 January 1993). Keputusan Presiden No.90 1993 (4 October 1993). Suara Pembaruan, 20 February 1993. Jakarta Post, 20 February 1993. Far Eastern Economic Review, 22 April 1993. Business Times, 29 May 1993. For information on investment regulations see Peraturan Pemerintah No.7 1993, 28 January 1993. Far Eastern Economic Review, 22 April 1993. For information on land titles of 80 years, made up of 30 year lease with guaranteed 20 year extension and further 30 year renewal see Peraturan Pemerintah No.40 1993, 17 June 1993. Bisnis Indonesia, 7 July 1993.

<sup>96</sup>Interview with BIDA Executive, Gunawan Hadisusilo, 10 August 1994.

## The IMS-GT and the Indonesian Conglomerates

In light of the convenient marriage between economic and political interests in Indonesia, domestic economic interests have a vested interest in promoting the Growth Triangle. Developments on Bintan, Karimun and Bulan Islands have undoubtedly been dominated by the conglomerates. In fact, apart from the involvement of Pemda Riau or an ABRI yayasan, domestic share-holding in projects is nearly confined to well-connected conglomerates, particularly those with strong Presidential links such as the Salim Group, the Bimantara Group, the Barito Group, and family members of serving and former government ministers, such as Harry Murdani and Timmy Habibie. These powerful domestic interests have stood to gain considerably from cooperation with Singapore under the auspices of the Growth Triangle. (See Table 7.2).

The most prominent domestic investor is the Salim Group. Indeed, the Salim Group has almost single-handedly fashioned the Indonesian corner of the Growth Triangle, through a diversified investment program ranging from pig farms and granite mining to industrial parks and property development. Former Executive Director, Judiono Tosin, boasted,

We are creating the Growth Triangle.<sup>97</sup>

The Salim Group was on the ground on Bintan Island well before any official pronouncements were made regarding its development. As early as May 1990, Anthony Salim was talking about the imminent development of north Bintan. Newspapers in fact reported that the area had already been divided up by speculating *cukong*.<sup>98</sup> The fact that the TKPPR was not set up until July 1990, and that the Agreement with Singapore was not signed until August, certainly suggests that the area had long been earmarked for development.<sup>99</sup>

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<sup>97</sup>Asiaweek, 18 January 1991.

<sup>98</sup>Suara Pembaruan, 8 May 1990.

<sup>99</sup>The area had long been identified as having tourist potential. In 1979 a tourism study, *Survai Wisata Bahari* was made of Bintan Island. In 1980 a study was made of Bintan as a compass for the development of tourism. It looked at the East Coast beaches, Trikora, and historical sites in Tanjung Pinang and Penyengat. The study saw the importance of proximity to Singapore and Marketing in Singapore. PT Idacipta ; Studi Pengembangan Wisata Tirta Pulau Bintan Riau, (Draft Final Report, 17 February 1981). The Governor has discussed a UNDP survey from 1986 which said that the natural and beautiful long sandy beaches of Bintan could be developed into a tourist area. Angkatan Bersenjata, 24 December 1990.

Table 7.2

## Major Domestic Investors on Bintan, Karimun and Bulan Islands

Salim Group	Salim Group	PT Buana Megawisata (100%) <sup>100</sup>	BBIR Property
	PT Sukajaya Indowahana (80% Salim Group)	PT Bintan Resort Corporation (60%) <sup>101</sup>	BBIR Developer
	Singapore Bintan Resort Holdings Pte Ltd (?% KMP Bincorp Investments)	PT Bintan Resort Corporation (40%) <sup>102</sup>	BBIR Developer
	PT Sukajaya Indowahana (80% Salim Group)	Bintan Resort Management Pte Ltd (40%) <sup>103</sup>	BBIR Manager
	Singapore Bintan Resort Holdings Pte Ltd (?% KMP Bincorp Investments)	Bintan Resort Management Pte Ltd (60%) <sup>104</sup>	BBIR Manager
	Salim Group	(?%) <sup>105</sup>	Hotel Rasa Indah
	Salim Group	SAFE Bintan Resort (10%) <sup>106</sup>	Hotel Sedona Bintan Lagoon
	Salim Group	Tropical Bintan (10%) <sup>107</sup>	Laguna Bintan Resort

<sup>100</sup> Jakarta Post, 5 February 1991.

<sup>101</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date). Forum Keadilan, 15 July 1996. BRC are also developing several resorts : Mayang Sari Resort, Mana Mana Beach Club, Erisindo Bintan Adhika Resort. Business Times, 28 February 1996.

<sup>102</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date).

<sup>103</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date). Forum Keadilan, 15 July 1996.

<sup>104</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date).

<sup>105</sup> The hotel is a joint-venture with Shangri-la. Bisnis Indonesia, 30 November 1993. Business Times, 19 June 1996.

<sup>106</sup> Business Times, 15 October 1992.

<sup>107</sup> Business Times, 29 January 1996.

PT Tricitra Usahamakmur (?% Salim Group)	PT Alam Indah Bintang (?%) <sup>108</sup>	Nirwana Garden Resort
Kabila Mandiri Persada (KMP) Pte Ltd Salim Group	(49%) <sup>109</sup>	Straits KMP Bintang Resort
	PT Bintang Industrial Estate Corporation (70%) <sup>110</sup>	BIE Developer
Salim Group	Bintang Industrial Estate Managment Pte Ltd (30%) <sup>111</sup>	BIE Manager
Salim Group	PT Surya Bangun Pertiwi (100%) <sup>112</sup>	BIE Property
PT Riau Setia Perkasa (87.5%)	PT Bintang Tirta (?%) <sup>113</sup>	Bintang Water Project
PT Riau Setia Perkasa (87.5%)	PT Bintang Karya Bersama (?%) <sup>114</sup>	Bintang Water Project
KMP Pte Ltd	PT Sinar Culindo Perkasa (24%) <sup>115</sup>	Bulan Pig Farm
KMP Pte Ltd	PT Piranti Gemilang (?%) <sup>116</sup>	Bulan Flower Farm
Salim Group	PT Karimun Granite (?%) <sup>117</sup>	Karimun Granite Mine

<sup>108</sup> Business Times, 19 March 1996. Promt Indonesian Investment Highlights, 5 June 1996. Reuters Textline 5Jun96.

<sup>109</sup> Business Times, 20 July 1994.

<sup>110</sup> Business Times, 30 January 1993.

<sup>111</sup> Business Times, 30 January 1993.

<sup>112</sup> Jakarta Post, 13 December 1990.

<sup>113</sup> LIPI ; Kerjasama Sijori dalam perspektif kepentingan nasional Indonesia (Jakarta, 1994), p 37.

<sup>114</sup> LIPI ; Kerjasama Sijori dalam perspektif kepentingan nasional Indonesia (Jakarta, 1994), p 37.

<sup>115</sup> Eddy Soetriyono ; Kisah Sukses : Liem Sioe Liong (Indonmedia, Jakarta 1989), p 119.

<sup>116</sup> Far Eastern Economic Review, 18 October 1990.

<sup>117</sup> Straits Times, 6 May 1996.

	Salim Group	PT Karimun IndoJaya Corporation (60%) <sup>118</sup>	Karimun Marine Industries Complex
	Salim Group	Karimun Oil Terminal Corporation (45%) <sup>119</sup>	Karimun Petroleum Complex
	Salim Group	PT Karimun Investama (?) <sup>120</sup>	Karimun Developer
	Salim Group	Karimun Industrial Management Pte Ltd (?) <sup>121</sup>	Karimun Manager
Bimantara Group	PT Sukajaya Indowahana (?)	PT Bintan Resort Corporation (60%) <sup>122</sup>	BBIR Developer
	PT Sukajaya Indowahana (?)	Bintan Resort Management Pte Ltd (40%) <sup>123</sup>	BBIR Manager
	Bambang Trihatmodjo	PT Karimun Granite (60%) <sup>124</sup>	Karimun Granite Mine
Barito Group	PT Sukajaya Indowahana (?)	PT Bintan Resort Corporation (60%) <sup>125</sup>	BBIR Developer
	PT Sukajaya Indowahana (?)	Bintan Resort Management Pte Ltd (40%) <sup>126</sup>	BBIR Manager
Bangun Tjipta Group	Bangun Tjipta Indokarimun	PT Karimun Investama (?) <sup>127</sup>	Karimun Developer

<sup>118</sup> Business Times, 19 September 1994.

<sup>119</sup> Business Times, 19 September 1994.

<sup>120</sup> Karimun Industrial Management Pte Ltd ; Karimun Islands Development (no date).

<sup>121</sup> Karimun Industrial Management Pte Ltd ; Karimun Islands Development (no date).

<sup>122</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date). BRC are also developing several resorts : Mayang Sari Resort, Mana Mana Beach Club, Erisindo Bintan Adhika Resort. Business Times, 28 February 1996.

<sup>123</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date).

<sup>124</sup> Straits Times, 6 May 1996.

<sup>125</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date). BRC are also developing several resorts : Mayang Sari Resort, Mana Mana Beach Club, Erisindo Bintan Adhika Resort. Business Times, 28 February 1996.

<sup>126</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date).

<sup>127</sup> Karimun Industrial Management Pte Ltd ; Karimun Islands Development (no date).

	Bangun Tjita Indokarimun	Karimun Industrial Management Pte Ltd (?) <sup>128</sup>	Karimun Manager
Sinar Mas Group	United Industrial Corporation	PT Sinar Culindo Perkasa (26%) <sup>129</sup>	Bulan Pig Farm
	Sinar Mas Group	(40%) <sup>130</sup>	Hotel
Sahid Group		(?) <sup>131</sup>	Hotel
Tommy Soeharto	Tommy Soeharto	PT Sinar Culindo Perkasa (19%) <sup>132</sup>	Bulan Pig Farm
Harry Murdani	Harry Murdani	PT Sinar Culindo Perkasa (26%) <sup>133</sup>	Bulan Pig Farm
Timmy Habibie	Timmy Habibie	PT Sinar Culindo Perkasa (5%) <sup>134</sup>	Bulan Pig Farm
Yayasan Angkatan Laut	PT Sukajaya Indowahana (7.5%)	PT Bintan Resort Corporation (60%) <sup>135</sup>	BBIR Developer
	PT Sukajaya Indowahana (7.5%)	Bintan Resort Management Pte Ltd (40%) <sup>136</sup>	BBIR Manager
	(?)	(?) <sup>137</sup>	Karimun Crude Oil Terminal
Pemda Tingkat I Riau	PT Sukajaya Indowahana (12.5%)	PT Bintan Resort Corporation (60%) <sup>138</sup>	BBIR Developer

<sup>128</sup> Karimun Industrial Management Pte Ltd ; Karimun Islands Development (no date).

<sup>129</sup> Eddy Soetriyono ; Kisah Sukses : Liem Sioe Liong (Indonmedia, Jakarta 1989), p 119.

<sup>130</sup> Reuters News Service, 28 January 1996. Reuters Textline 28Jan96.

<sup>131</sup> Business Times, 19 June 1996.

<sup>132</sup> Eddy Soetriyono ; Kisah Sukses : Liem Sioe Liong (Indonmedia, Jakarta 1989), p 119.

<sup>133</sup> Eddy Soetriyono ; Kisah Sukses : Liem Sioe Liong (Indonmedia, Jakarta 1989), p 119.

<sup>134</sup> Eddy Soetriyono ; Kisah Sukses : Liem Sioe Liong (Indonmedia, Jakarta 1989), p 119.

<sup>135</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date). Forum Keadilan, 15 July 1996. BRC are also developing several resorts : Mayang Sari Resort, Mana Mana Beach Club, Erisindo Bintan Adhika Resort. Business Times, 28 February 1996.

<sup>136</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date). Forum Keadilan, 15 July 1996.

<sup>137</sup> Jakarta Post, 16 May 1994.

<sup>138</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date). Forum Keadilan, 15 July 1996. BRC are also developing several resorts : Mayang Sari Resort, Mana Mana Beach Club, Erisindo Bintan Adhika Resort. Business Times, 28 February 1996.

PT Sukajaya Indowahana (12.5%)	Bintan Resort Management Pte Ltd (40%) <sup>139</sup>	BBIR Manager
PT Riau Setia Perkasa (12.5% BUMD)	PT Bintan Tirta (?) <sup>140</sup>	Bintan Water Project
PT Riau Setia Perkasa (12.5% BUMD)	PT Bintan Karya Bersama (?) <sup>141</sup>	Bintan Water Project
(?)	(?) <sup>142</sup>	Karimun Crude Oil Terminal

<sup>139</sup> TKPPR ; Proyek-Proyek Dalam Rangka Kerja Sama Ekonomi Indonesia-Singapura (no date). Forum Keadilan, 15 July 1996.

<sup>140</sup> LIPI ; Kerjasama Sijori dalam perspektif kepentingan nasional Indonesia (Jakarta, 1994), p 37.

<sup>141</sup> LIPI ; Kerjasama Sijori dalam perspektif kepentingan nasional Indonesia (Jakarta, 1994), p 37.

<sup>142</sup> Jakarta Post, 16 May 1994.

Most of the Salim Group's ventures in the Riau Islands are in partnership with Singapore companies. The division of labour allows each company in the joint-venture to concentrate on its particular area of expertise. For instance, in BBIR, STIC handles the engineering aspects of the project, and the Salim Group tackles thorny indigenous problems that may crop up from time to time, in particular the resettling and compensating of peoples moved from the site of the project. The Singapore partners in fact submit monthly progress reports to the Salim Group, which then resolves any problems.<sup>143</sup>

The predominance of large Indonesian conglomerates in joint projects in the Riau islands under Indonesia-Singapore cooperation has been a contentious issue, forcing the Indonesian government to respond to comments from some quarters that Riau's development would benefit only certain individuals or groups. Riau Governor, Soeripto, has at various times insisted that the development of Bintan was a strategic government project which intended to raise the standard of living of the community, that the development of Bintan was not for private interests, and that the development and management of Bintan would not be handed over to just one conglomerate.<sup>144</sup>

The central government, too, has responded to local concern. Tungky Ariwibowo's explanation was that, as everywhere else in the world, the government could not control capital, for only the capital owners themselves have the power to decide where capital must be invested.<sup>145</sup> Important politically, and in order to dispel claims that development is monopolised by several Jakarta conglomerates and foreign investors, BBIR's developer's have taken care to break up large infrastructure projects into smaller parcels to allow participation from small Indonesian enterprises, because of strong pressure from the indigenous business community to share in the development of Riau.<sup>146</sup>

Many indigenous groups are concerned that by opening up Riau to foreign investment, the government has provided yet another means by which Indonesian conglomerates, especially Indonesian Chinese business interests in association with Singaporean

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<sup>143</sup> Straits Times, 14 March 1994. BRM has engaged a team of environmental and sociological consultants to ensure minimal disruption to local people's livelihood, and to the natural environment. Straits Times, 23 September 1994.

<sup>144</sup> Media Indonesia, 3 October 1991. Media Indonesia, 28 October 1992.

<sup>145</sup> Merdeka, 2 December 1993. Soeripto too, claims the private sector was there because the cost involved was too substantial for the Indonesian government to go it alone. Suara Karya, 23 September 1991. The Straits Times, 24 September 1991.

<sup>146</sup> Straits Times, 14 March 1994. A master plan has been drawn up for the development of four retail villages with the aim of getting small and medium-sized retailers and restaurateurs to take up land leases. The aim is to keep them small scale so that there are opportunities for the smaller entrepreneur. The consortium behind the Bintan Beach International Resort will invest in the village's infrastructure at a cost of around S\$50 million. Business Times, 27 August 1992. Both Indonesian and joint-venture contractors are currently being used. Interview with TKPPR official, 15 September 1994.

companies, can acquire even more wealth.<sup>147</sup> As noted by Indonesian economist, Kwik Kian Gie,

Bintan island is controlled by one of the private-sector business groups that has been transformed into a joint venture with Singapore in a manner far from being transparent.<sup>148</sup>

Salim Group companies, PT Buana Megawisata and PT Surya Bangun Pertiwi, own the property for the BBIR and BIE sites respectively.<sup>149</sup> How the Salim Group was so easily able to obtain the 27,000 ha. of land, which affected around 3,000 people, for the industrial and tourism projects is not clear.<sup>150</sup> Anthony Salim was forced to deny charges that the Salim Group was coercing landowners to sell their land.<sup>151</sup> However, it is more likely that they used the local government apparatus. According to member of the DPR, Harun Amin, private interests used the government's hand in freeing the land, and the carrying out of compensation was done without community consultation but under the pretext of the importance of a government project.<sup>152</sup> There were even suggestions that the Governor was protecting business interests, for he was seen to be close to the conglomerates.<sup>153</sup>

Just who set the low level of compensation for land is muddled, perhaps deliberately, by the numerous and conflicting statements of government officials. Officially, the level of compensation was determined by a Compensation Committee set up by Pemda Riau. Other reports state that the level of compensation was set by the Governor in 1991. Pemda in fact distanced itself from the issue, claiming that the level of compensation had been decided by the central government.<sup>154</sup> Some questioned whether it was the conglomerates who desired low land compensation, leading President Soeharto to claim that development was of national interest and for the benefit of investors or businessmen.<sup>155</sup> Indeed, the Salim Group has avoided being associated with the issue of land acquisition and compensation, claiming that the decisions were all made by Pemda.<sup>156</sup>

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<sup>147</sup> Asian Intelligence, 26 June 1991, pp 6-7.

<sup>148</sup> Jakarta Post, 11 March 1994.

<sup>149</sup> Jakarta Post, 13 December 1990. Jakarta Post, 5 February 1991.

<sup>150</sup> The Jakarta Post, 22 June 1991.

<sup>151</sup> Far Eastern Economic Review, 14 March 1991.

<sup>152</sup> Pelita, 19 November 1991.

<sup>153</sup> Suara Pembaruan, 7 July 1992.

<sup>154</sup> Jakarta Post, 3 October 1991. Suara Karya, 18 November 1991. According to the Governor, a land compensation committee for the area had been set up in 1989. Media Indonesia, 3 October 1991. According to the Bupati, however, it was 1990. Suara Karya, 19 November 1991. More information might be given in the Surat Keputusan Panitia Pembebasan Tanah No.KPTS 05/580/1990. Suara Pembaruan, 18 April 1991.

<sup>155</sup> Kompas, 24 January 1994.

<sup>156</sup> Media Indonesia, 10 October 1991.

The Indonesian government has gone to great lengths to stress that the Riau provincial government is a partner in the consortium involved in Bintan's development, and that the Salim Group would be 'just one' of the investors.<sup>157</sup> Anthony Salim, too, has stressed that development is coordinated by the local government, central government and Singapore.<sup>158</sup> However, the involvement of certain business groups in developments has also opened up charges of corruption and suggestions of collusion between private business and government agencies, particularly with regards to land acquisition and compensation on Bintan.<sup>159</sup> There were reports that five members of the DPR, said to be a strong Salim Group lobby, were using land compensation cases to further their own interests, by making a private visits to Bintan under the sponsorship of the Salim Group. The deputy head of Commission VII DPR admitted being a connection in the visit but denied having received money and facilities from the Salim group.<sup>160</sup>

One further consequence of the Growth Triangle and cooperation with Singapore has been the increased penetration and presence of Singaporean Chinese in Riau. There are strong fears of the prospect of an enclave of Chinese capital forming within the Growth Triangle. Singapore capital has had a long and an unofficial involvement in Riau. According to Indonesian researcher, Alfitra Salaam, around 17,729 fishing households in the Riau Islands work for or sell their catch to Chinese shop-owners which are financed by Singaporean businessmen.<sup>161</sup> Whilst there is a wariness of the power of external Chinese capital, the government tacitly accepts the links between domestic Indonesian and overseas Chinese communities, and the possible advantages and potential it holds. Some groups, however, are attempting to reactivate Malay cultural links in order to balance the Chinese influence, led by the Habibie-linked FOKUS.

Indonesia's, and particularly its large conglomerates', participation in the Growth Triangle stands as a good example of Indonesian big business playing a larger regional role. The government-business relationship as it has pertained to the Growth Triangle is interesting, particularly for the way in which business interests have had an impact on bureaucratic decision-making and government policies and development strategies. As early as August 1990, the Governor of Lemhanas (National Defence Institute), Major-General Soekarto, warned that the decision to create the Growth Triangle showed the prominent role played by certain groups in controlling the economy.<sup>162</sup> As the large

<sup>157</sup> See comments by Tungky Ariwibowo in *Straits Times*, 8 February 1991.

<sup>158</sup> *Suara Pembaruan*, 8 May 1990.

<sup>159</sup> *Pelita*, 6 August 1992.

<sup>160</sup> *Pelita*, 26 June 1992. *Pelita*, 27 June 1992. *Pelita*, 30 June 1992.

<sup>161</sup> *Antara*, 9 February 1994.

<sup>162</sup> He made the comments at a Lemhanas forum held on 20 August 1990. *Jakarta Post*, 21 August 1990. *Merdeka*, 27 August 1990. *Angkatan Bersenjata*, 21 August 1990.

domestic corporate groups seek to expand through internationalisation it is only natural that they first spill over to their neighbouring regions. The trend, therefore, is towards joint-ventures and strategic alliances of regional business interests.

### **The IMS-GT in the Domestic Context**

The reaction in Indonesia towards the IMS Growth Triangle and cooperation with Singapore was generally positive, although it was clearly obvious that some were suspicious about the merits of cooperation with Singapore. Indonesian cooperation with Singapore under the auspices of the IMS Growth Triangle raised a number of questions about what the benefits of cooperation were for Indonesia. The most important questions, or perhaps more correctly domestic criticisms, are that such cooperation legitimises Singaporean economic expansion, that the relationship favours Singapore to the detriment of Indonesia, and that it will not assist regional development or involve local people in projects.

Criticism of specifically Indonesia-Singapore cooperation in the Riau islands has erupted in Indonesia from time to time, forcing senior government officials to stress the benefits of joint projects. These criticisms have come from various groups including the media, the DPR, former ministers and leading economists. The most common perception is that cooperation is based on an unequal relationship and tends to be exploitative, to the benefit of Singapore. As a result, it has invited comment from nationalist groups in Indonesia who see foreign domination in Riau as weakening the Indonesian nation and people, economically, politically and culturally.<sup>163</sup> For instance, economist, Kwik Kian Gie, has expressed concern that Indonesia is pawning its islands, with Batam, Bintan and Bulan as the precedents.<sup>164</sup>

Members of the DPR, through its various Komisi, have consistently criticised aspects of cooperation with Singapore. At various times concerns have been raised about : sharp price rises in the islands; land speculation by major Jakarta investors to the detriment of local people; land compensation issues; the management of joint projects; and possible ecological dangers, particularly from water projects.<sup>165</sup>

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<sup>163</sup> *Antara*, 9 February 1994.

<sup>164</sup> *Jakarta Post*, 11 March 1994.

<sup>165</sup> *Suara Karya*, 20 November 1990. Suhardi, of Golkar, a member of the House Commission X on the environment said in a hearing with State Minister for Environment Emil Salim that the removal of 3.5 billion litres of water a day for a period of 100 years could jeopardise Bintan's ecology. He also said that sand quarrying had also aggravated environmental degradation on the island. *The Jakarta Post*, 28 June 1991. It has also been argued that the pig farm on Bulan Island was evidence that Singapore was only moving highly polluting industries to Indonesia. LIPI ; *Kerjasama SIJORI dalam perspektif kepentingan nasional Indonesia*, p 13.

The legality of the various agreements made with Singapore has been an important point of concern, particularly for those desiring to strengthen the role of the DPR. Several members of the DPR have called for all Singapore-Indonesia agreements pertaining to Batam, Bintan and Karimun Islands to be ratified by the DPR, and called on the government to have the DPR ratify those related to the IMS-GT, recalling Paragraph 11 of the 1945 Constitution, which stipulates that the President can, but only with the agreement of the DPR, make agreements/treaties with other countries. They point out that the Timor Gap Treaty with Australia had been ratified but not the Riau Agreement, despite the fact that the latter covered far more fields of activity than simply oil exploration. They insist that ratification by the DPR is the only proof that the Indonesian people consent to the arrangements.<sup>166</sup>

Criticism of Indonesia-Singapore joint projects has been carried strongly by the media, usually in phases. As a result, defence of cooperation has come in waves, and importantly has been made by more than one minister, indicating that government support of cooperation with Singapore was fairly unanimous. On the one hand, ministerial comments are made to assure the Singapore government and foreign investors that the Indonesian government is committed to developing the Riau Islands. Junior Minister of Industry, Tungky Ariwibowo, went so far as to comment that Singapore's active role in the development of Riau province would not be an election issue for the Indonesian government.<sup>167</sup> More importantly, however, ministerial remarks are usually directed at easing domestic concerns that Indonesian resources were being exploited and developed for Singapore's benefit. According to Tungky, unhappiness among some Indonesians was simply due to a lack of understanding and information.<sup>168</sup> As a result, Indonesian ministers have stepped in to correct such misunderstandings.

Several ministers came to the defence of the January 1993 Riau water agreements, and more generally the new cooperative efforts in the Riau islands. In response to claims that cooperation only profited Singapore, Coordinating Minister of Economy, Finance and Industry, Radius Prawiro, remarked that joint development of the Riau islands did not damage Indonesia, and denied that the agreement to supply water to Singapore meant the government was selling 'tanah air kita' ('Our Motherland', but more literally 'our land and water') to Singapore.<sup>169</sup> The Governor of Riau also defended the agreements, saying that the water projects benefited Riau because they would help it to

<sup>166</sup> Suara Karya, 20 November 1990. Media Indonesia, 19 May 1993.

<sup>167</sup> Business Times, 27 September 1991.

<sup>168</sup> Business Times, 27 September 1991.

<sup>169</sup> "Yang kita jual, jelas bukan tanah air. Tetapi air tanah.", he said jokingly, in reference to the fact that Indonesia also sold land to Singapore for reclamation. Suara Pembaruan, 30 January 1993. Kompas, 30 January 1993.

overcome problems in providing clean water to its inhabitants, as well as overcome the yearly floods which affect Riau mainland.<sup>170</sup> Tungky Ariwibowo, was more forthright, exclaiming the virtues of the relationship.

It is clear, Indonesia and Singapore both enjoy benefits from these cooperative efforts.<sup>171</sup>

Following another wave of criticism in July 1994, Tungky Ariwibowo refuted suggestions that Bintan and Karimun Islands were being sold to Singapore, pointing out that ownership of all joint projects was divided 60% Indonesian and 40% Singaporean, and that Indonesia gained from foreign exchange earnings, tax receipts, work opportunities, technological know-how and other multiplier effects.<sup>172</sup> His comments were followed days later by Hartarto who refuted suggestions that Singapore set development policies for Bintan Island.<sup>173</sup>

Former Finance Minister, Frans Seda, expressed concern that the areas surrounding Singapore would gain, with only limited benefit to the rest of Indonesia and to the detriment of other more needy areas, particularly the under-developed eastern part of the country.<sup>174</sup> Whilst there is criticism that Jakarta's participation in the Growth Triangle could draw resources away from development in other parts of the country, particularly Eastern Indonesia, the government's response has been that it is inaccurate to talk about government participation because involvement was primarily by the private sector, and the government simply drew up regulations and provided a good investment climate as they did for other parts of the country.<sup>175</sup>

The government's attitude is that Indonesia's linkages with Singapore in the Riau islands not only ensure faster growth for Riau province but have created a centre of economic development whose benefits, such as employment generation and foreign exchange earnings, could be felt widely across other parts of the country.<sup>176</sup> Tungky Ariwibowo claimed that Indonesia's linkages with Singapore in the Riau islands have created a centre of economic development whose benefits are being felt widely across other parts of the country, and that on-going cooperation not only ensured faster growth for Riau province, but also generated employment and earned foreign exchange necessary for economic programs elsewhere in Indonesia.<sup>177</sup>

<sup>170</sup> Suara Pembaruan, 30 January 1993.

<sup>171</sup> Suara Pembaruan, 20 February 1993. Angkatan Bersenjata, 20 February 1993.

<sup>172</sup> Suara Pembaruan, 20 July 1994.

<sup>173</sup> Merdeka, 25 July 1994.

<sup>174</sup> Straits Times, 12 June 1990.

<sup>175</sup> Straits Times, 28 March 1991.

<sup>176</sup> See comments by Industry Minister, Tungky Ariwibowo in Straits Times, 1 December 1993.

<sup>177</sup> Straits Times, 1 December 1993.

At times, ministers have addressed local concerns about cooperation with Singapore. Various senior Ministers have responded to local community concerns about the lack of availability of clean water, by stressing such things as : half of the water collected in catchment areas on Bintan island would be channelled for domestic consumption on the island, and was not being developed solely to meet Singapore's needs<sup>178</sup>; that what was to be sold was rain water from river catchment areas and not ground-water.<sup>179</sup> According to Riau Governor, Soeripto, there was nothing wrong with Singapore gaining something for itself through cooperation with Indonesia while providing 'inputs' for Riau's development, because Indonesia also stood to gain.<sup>180</sup> Soeripto dismissed the notion that Indonesia might appear to be "selling off" the province given the active involvement of Singapore and the private sector in developing its vast potential because,

Singapore possesses a capacity, so why don't we make use of it?<sup>181</sup>

For the provincial government, the involvement of parts of Riau in the Growth Triangle offers the possibility of growth in industrial activity which might not otherwise have been attained. Indeed, two main features of economic development in Indonesia in the past two decades have been that economic activity has remained predominantly located in Java, and to a lesser extent Sumatra, and that most modern manufacturing and service sectors continue to be located on Java.<sup>182</sup> On Bintan Island, tourism and industrial projects are already set to replace the activities of Pertamina and bauxite mining as the traditional industrial mainstays of the local economy.

Riau officials see Singapore as the engine of growth for the development of Riau province.<sup>183</sup> Pemda Riau has for the most part been enthusiastic about the possibilities offered by Indonesia-Singapore cooperation in the province, the Governor often articulating the economic opportunities which will arise as a result of the development of industrial and tourism areas on Batam, Bintan, Karimun and other islands.<sup>184</sup>

<sup>178</sup> Straits Times, 1 December 1993. See also Riau Pos, 7 January 1992.

<sup>179</sup> See comments by Minister for the Environment, Emil Salim in The Jakarta Post, 28 June 1991; and comments by Public Works Minister, Radinal Mochtar in The Jakarta Post, 3 July 1991.

<sup>180</sup> Suara Karya, 23 September 1991. The Straits Times, 24 September 1991.

<sup>181</sup> Suara Karya, 23 September 1991. The Straits Times, 24 September 1991.

<sup>182</sup> Hal Hill & Anne Weidemann ; "Regional development in Indonesia : Patterns and Issues", in Hal Hill (ed) Unity and Diversity : Regional economic development in Indonesia since 1970 , p5. In the period 1967-September 1985, Jakarta and West Java attracted around 40% of the total of approved foreign and domestic investments in the non-oil sectors (ie excluding investments in oil, gas, banking and insurance), and Java over 50%. Hal Hill & Anne Weidemann ; "Regional development in Indonesia : Patterns and Issues", in Hal Hill (ed) Unity and Diversity : Regional economic development in Indonesia since 1970 , p22. In the period 1967-September 1985, Riau received 1% of realised foreign investments, worth US\$49m, and 2.3% of approved domestic investments. The three largest sectors were 'Other Mining' 33.1%, 'Forestry' 22.2% and 'Wood Industry' 14.2%, making a total of 69.5%. Hal Hill & Anne Weidemann ; "Regional development in Indonesia : Patterns and Issues", in Hal Hill (ed) Unity and Diversity : Regional economic development in Indonesia since 1970 , pp 28-29.

<sup>183</sup> Angkatan Bersenjata, 28 January 1992.

<sup>184</sup> Suara Karya, 12 December 1990.

According to Governor Soeripto, little by little Riau's potential will begin to be used, and as that potential is utilised the surrounding community will become involved.<sup>185</sup> Whilst the Riau provincial government is currently encouraging all areas of Riau province to participate, concentrating on tourism, agro-business and industry, the lack of even the most basic infrastructure will limit foreign investment interest in the smaller or more remote islands, and as a result, Batam, Bintan and Karimun will continue to offer the most potential to investors.<sup>186</sup>

Whilst there is some pessimism in Riau, in general the local people place hope on Indonesia-Singapore joint projects to raise prosperity and increase economic opportunities.<sup>187</sup> According to the Riau Provincial Secretary, Rivaie Rachman, there were several positive features about the IMS-GT - employment and business opportunities, and faster economic development - the negative factors being the fear that it will only profit Singapore, and that local communities will have little opportunity to participate and benefit fully.<sup>188</sup>

There is criticism that local communities do not benefit from the joint Indonesia-Singapore projects in Riau. In many ways, the development projects are not local-people-friendly. Member of the DPR, Harun Amin, even described the level of compensation given to landowners as "inhumane".<sup>189</sup> According to Indonesian academic, C.P.Luhulima, while these development projects are promoted as "regional development", the truth is closer to "development in the region".<sup>190</sup>

Indeed, there is no succinct policy to enhance the economic well-being of the people in the islands, and economic activities do not appear to integrate local small and medium scale enterprises. In addition, there is an imbalance in the value factors used in the production process - Riau only contributes land and unskilled labour and both are extremely low in value as compared to capital, knowledge, technology and entrepreneurship owned and provided by the domestic conglomerates and foreign investors.

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<sup>185</sup> *Pelita*, 17 September 1990.

<sup>186</sup> *Singapore Business*, December 1990. Most of Riau is retarded by inadequate telecommunications and transport facilities. Airports are located on the islands of Karimun, Bintan, Singkep, Anambas, Natuna and Batam. Telephone services are available in Batam, Bintan, Karimun, Kundur and Singkep. *Singapore Business*, December 1990.

<sup>187</sup> *Suara Karya*, 4 February 1993.

<sup>188</sup> Rivai Rahman ; "Sudut Pandang Riau" , in Adi Sasano, A.Makmur Makha, Moh.Jumhur Hidayat (eds) *Pertemuan Serantau* , (CIDES, Jakarta 1993) , p 114. See also the comments made by the Governor in *Merdeka*, 9 March 1991.

<sup>189</sup> *Suara Karya*, 19 November 1991. *Pelita*, 19 November 1991.

<sup>190</sup> C.P.F.Luhulima ; "The Performance of ASEAN Economic Cooperation" , *Indonesia Quarterly* Vol.XXII No.1, p 19.

The centralist nature of the Indonesian economy - proceeds of exports accrue to the nation as a whole and only a small share is returned to the respective exporting regions - and the Indonesian political structure, means that provinces have little control over their economic destiny. Whilst greater emphasis is currently being accorded to 'regional self-reliance', policies and development projects decided by the central government, as in the case of the IMS-GT, are inclined to reflect a centralist attitude which weakens the authority of local government.<sup>191</sup> The centralist attitude is strong. Habibie told a business audience on Batam in 1991,

Don't consider SIJORI as owned by Riau, because Riau does not have the funds and skills.<sup>192</sup>

However, it has received criticism. Prominent Indonesian businessman, Laksamana Sukardi, blames the slow progress of the IMS Growth Triangle on the central government because it does not give the Riau government full authority to formulate policies related to cooperation among the triangle's members.<sup>193</sup> Some changes are evident, for there is no doubt the inclusion of the Governor of Riau on the Supervisory Board of the TKPPR was aimed at increasing the participation of the Riau provincial government in the development of Bintan and Karimun Islands, in stark contrast to its virtual exclusion on Batam.<sup>194</sup> However, further steps need to be taken. What is required are clear and succinct policies aimed at enhancing the economic well-being of people living in and around development projects in the Riau Islands.

Whilst it is clear that the Indonesian government will continue to strongly support cooperation with Singapore under the banner of the IMS-GT, the Indonesian government will also continue to monitor and respond to domestic sentiment about the role of Singapore in the Riau islands. However, its response will continue to be typical of elsewhere in Indonesia - the projects and developments are of national importance.

### **Policy-Making**

The Indonesian corner of the IMS Growth Triangle provides an interesting insight into Indonesian policy-making. Events and processes in the Riau islands were dominated by general features of Indonesian political economy - Presidential Domination, Clientelism, Intra-elite Politicking and External Influence. The formal endorsement

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<sup>191</sup>The administrative capacity in the provinces is stronger, especially following the establishment of regional planning agencies, such as the Badan Perencanaan Pembangunan Daerah (Bappeda). Hal Hill & Anne Weidemann; "Regional Development in Indonesia: Patterns and Issues", in Hal Hill (ed) Unity and Diversity: Regional Economic Development in Indonesia since 1970, p47.

<sup>192</sup>Antara, 28 October 1991.

<sup>193</sup>The Jakarta Post, 28 July 1993.

<sup>194</sup>Other members include the Head of the BPN, Minister for Public Works, Minister for Tourism, Post and Telecommunications and Chairman of the BKPM.

process and sanctioning at the highest levels of the Indonesian and Singaporean governments, the role of political elites, their networks, and those of the business elites clearly come to the fore when one takes a critical look at both the formation and management of development projects in Riau.

President Soeharto's support of Singaporean participation in developments in the Riau Islands was, of course, pivotal, and through the signing the 1990 Riau Cooperation Agreement, Soeharto provided a framework under which cooperation would continue. He entrusted Economic Coordinating Minister, Radius Prawiro, and later Hartarto, to oversee Indonesia-Singapore cooperation. That Radius, a technocrat, was chosen to secure cooperation with Singapore rather than Habibie, who had overseen the 1980 Batam Agreement, suggests that the technocrats were strongly behind the initiatives and that Soeharto felt Habibie would try to impose restrictions on joint projects, something that neither the technocrats, the conglomerates or Singapore desired. When Habibie did attempt to hijack those joint projects, Soeharto forcibly intervened.

Intra-elite struggles were clearly evident in the development of Bintan and Karimun Islands which had been set up by the technocrats for quite different purposes than Batam Island, where they had been largely unsuccessful in influencing developments. Initially Habibie was not inclined to interfere in Bintan and Karimun, and instead sought expansion of his own working area on Batam through the Barelang project. However, with the retirement of technocratic adversary, Radius Prawiro, in early 1993, Habibie moved quickly onto the offensive by staking his claim to control over development, and attempting to impose his high-technology strategy on the rest of the Riau islands. He failed in this regard because of the strong resistance of the Minister for Industry and the BKPM Chairman who had enlisted the support of Soeharto. Whilst not unambiguously members of the technocratic camp, those officials have maintained the strategy adopted by Radius Prawiro and the technocrats.

Whilst Batam was a government-led development followed by private sector involvement, the pattern on Bintan and Karimun was the exact opposite, where the private sector led developments. It is clear in this case, that the 'national goals' of the Indonesian state benefited the economic and business elites. Their role in the institutions, initiatives and management of developments on Bintan and Karimun Islands was highly important. Certainly matters such as those of land acquisition and compensation involved collusion between businessmen and government officials.

The Salim Group was at the forefront of developments, clearly dominating the private investment scene, and taking a large share in every joint Indonesia-Singapore project, as well as interest in other commercial ventures. Other Jakarta conglomerates were also

involved, particularly the Bimantara, Barito and Bangun Tjipta Groups. In all cases of Indonesia-Singapore joint projects, the conglomerates were in partnership with Singapore consortia put together by the EDB. The official encouragement of joint ventures between public enterprises and private firms from Indonesia and Singapore in major investment projects served to enhance cooperation and the interlocking of interests among business groups from the two countries.

Non-state actors played a role but had little, if any, impact on policy-makers. As a member of TKPPR, and a partner in several joint projects, Pemda Riau appeared to be consulted on most matters pertaining to developments on Bintan and Karimun. However, whilst Pemda Riau had a far greater role in developments on Bintan than on Batam, that role did not necessarily equate with more influence.

The media carried stories of land acquisition and compensation, and DPR members expressed their concerns over similar matters, contributing to the general debate in Indonesia about developments under the auspices of the IMS-GT. However, whilst sometimes critical, at no stage did either of them have an impact on the policy-making processes. One newspaper criticised the DPR for its inaction and ineffectiveness over land acquisition problems on Bintan, asking the question, "Does the DPR have any bite?"<sup>195</sup>

The Singapore government was involved in almost every economic activity in the Riau islands, and its role in the setting of the policy agenda appeared to have been significant. Singapore had influence through direct representations to the government, and through the EDB and GLCs who cooperated primarily with Indonesian conglomerates with special access to power and policy-making. The large number of projects and initiatives under the IMS-GT have clearly cemented ties between Singapore and Indonesia and will mean that Singapore will remain of policy importance well into the future.

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<sup>195</sup> "DPR, Di Mana Giginya?" *Suara Pembaruan*, 7 July 1992.

## 8

### Conclusion

The purpose of this study was to describe and analyse the political and economic transformation of Batam Island. The preceding chapters have traced the history and political economy of Batam Island, and illustrated the policy debates, policy shifts and policy processes as they have been played out.

The main aim, however, was to investigate what the experiences of developing Batam Island tell us about the policy-making processes in Indonesia, and about Indonesian political economy under the New Order in general. Batam Island offered a useful case study. Not only did economic events on Batam mirror Indonesia's national economic transformation, but the political and policy processes reflected those occurring at the centre.

As has been described in earlier chapters, Batam Island underwent a significant transformation, physically, economically and politically, since development began in the late 1960s. In just over twenty-five years, what was once a sparsely populated island of subsistence farmers and fishermen is today a seemingly thriving manufacturing, industrial and tourism area.

Growth data comparing the development of Batam over the period 1968-1993 illustrates the economic transformation which has taken place. (See Table 8.1). Economic indicators show impressive growth in most facets of the Batam economy - labour force numbers, tourists, exports, foreign investment, foreign exchange revenue as well as infrastructure and utilities. The most significant trend, however, is the enormous growth which has occurred since 1989.

Despite early promise, the results of development on Batam Island before 1988 were quite limited. Reliance on the oil industry meant that the fortunes of Batam Island were strongly tied to those of the domestic and international oil markets. When those markets were strong, particularly in the early 1970s, economic activity on Batam was vibrant, but downturns in the international oil sector in the mid-1970s and in the mid-1980s, adversely affected Batam Island.

**Table 8.1**

**Growth Data Comparison of Batam Island  
(Years 1968, 1973, 1978, 1983, 1988, 1993)<sup>1</sup>**

	1968	1973	1978	1983	1988	1993
<b>Population</b>	3,000	6,000	31,800	43,000	79,400	146,000
<b>Labour Force</b>	-	3,400	2,240	5,500	9,478	44,000
<b>Tourists</b>	-	<i>a</i>		21,000	227,981	680,373
<b>Paved Roads</b>	-	<i>b</i>	1.4 km	105 km		313 km
<b>Fresh Water</b>	-	20 lt/sec	55 lt/sec	160 lt/sec		850 lt/sec
<b>Electricity</b>	-	2 MV	5 MV	18 MV		200 MV
<b>Telephone Lines</b>	-	10 SS	10 SS	1,470 SS		12,500 SS
<b>Flight Arrivals</b>	-	<i>c</i>		7 x week	27 x week	109 x week
<b>Airport Run Way</b>	-	850 m	850 m	2,500 m	2,500 m	3,600 m
<b>Maximum Sea Berth Capacity</b>	-	5,000 DWT	5,000 DWT	10,000 DWT	15,000 DWT	35,000 DWT
<b>Total Investment</b>	-		US\$202 m	US\$502m		US\$4,525m
<b>a. Government</b>	-	US\$64m	US\$116m	US\$253m	US\$408m	US\$743m
<b>% of total</b>			58%	50%		17%
<b>b. Private</b>	-		US\$85m	US\$249m		US\$3,782m
<b>% of total</b>			42%	50%		83%
<b>Total Foreign Exchange Revenue</b>	-		US\$0.3m	US\$4m	US\$75m	US\$1,175m
<b>a. Tourists</b>	-			US\$1m	US\$31m	US\$250m
<b>b. Export</b>	-		US\$0.3m	US\$3m	US\$44m	US\$925m
<b>Local Government Revenue</b>	-		Rp10m	Rp167m	Rp1.19b	Rp6.95b
<b>Foreign Exchange Revenue   capita/year</b>			US\$10	US\$93	US\$945	US\$8,048

<sup>1</sup>BIDA ; Various sources. *a* - 12, 630. Prior to 1983, all visitors, domestic and foreign, passed through Singapore. *b* - 186km unpaved roads. *c* - Prior to 1983, all aircraft were small commuter.

Reliance on the oil industry was compounded by several other factors. The first was the restrictive controls placed on foreign investment following the Malari incident in 1974, which dampened investor interest in Indonesia generally. The second was the restrictions placed on foreign investment by the 1982 Batam Island DSP, which discouraged investment in many, and often the most viable, manufacturing activities, particularly by those companies wishing to relocate from Singapore.

In the mid-1980s, declining world oil prices necessitated a shift in economic policies towards progressive deregulation of the Indonesian economy. Initially deregulation was moderate and confined to the few areas where the technocrats had greatest influence. With increasing success in the late 1980s, particularly a dramatic increase in non-oil exports, especially manufactured goods, the Indonesian government, influenced by a convergence of technocratic economic arguments and political pressure from the Singaporean government, became convinced of the need for regulatory change on Batam Island. Therefore, the changes on Batam must be seen in the light of Indonesia's commitment to the diversification of its economy, to substantial deregulation, and to the promotion of non-oil exports.

The resultant changes to the investment regime in 1989, as well as other reforms, brought far-reaching changes within a year - a massive influx of investment and the growth of an export-oriented manufacturing sector. Within only a few years, plans to turn Batam Island into an industrial area were finally coming to fruition as a rapidly-growing industrial economy increasingly centred around a strengthening manufacturing sector. The growth of non-oil exports gave credence to liberal economic policies and provided strong support for the Growth Triangle development idea as part of Indonesia's strategy to increase efficiency and its competitiveness in world markets. In that way, the processes involved have been an important element in Indonesia's economic transformation.

One interesting feature of the development of Batam Island was the way in which it was used by the Indonesian government to test the ability and effectiveness of state policy in shaping economic development. For instance, both the recent boom periods of 1984-85 and 1990-92 were closely related to a decision/policy from the central government. The lessons learned through the Batam experience can, and have, been applied to other parts of Indonesia. Because Batam was a 'frontier' area of Indonesia, it provided an insulated enclave for experimenting with economic development strategies, both those of the economic nationalists and those of the technocrats. However, whilst at times procedures and policies on Batam have differed radically from the rest of Indonesia, they have for the most part reflected what has gone on in the rest of Indonesia.

Batam Island cannot be separated from developments at the national level - economic, political and social. The development of Batam clearly illustrates Indonesia's political economy throughout the New Order period, for policy-making on Batam exhibited all of the major features of New Order political economy described in Chapter Two. What is most clear from the study of the policy-making processes on Batam Island is that those processes have changed little over time. Whilst policy-making today is far more complex than twenty-five years ago, in part due to the growing complexity of the economy, but also due to the growing complexity of society, the main determinants of policy remain the same. It is useful here to summarise the main features of the Batam Island polity, recapping on the major points and qualifying each feature where necessary.

The policy-making processes were highly centralised and generally insulated from non-state pressures. Three features consistently influenced the policy processes throughout the period of the study - Presidential Domination, Intra-elite Politicking and Clientelism. Whilst the processes were not insulated from non-state pressures, societal and external, which emerged especially in the late-1980s, these did not play a consistent nor significant part in the policy-making processes.

At the apex of the policy-making structure for Batam Island was President Soeharto. Soeharto has achieved a remarkable degree of personal authority and power in his more than twenty-five years in power, and the political system very much reflects his personality and his personal style. Without his consent the Batam project initially could not have gone ahead, could not have been continued after the Pertamina crisis placed serious doubts on its viability, and could not have received the support that it does today. In fact, Soeharto has become Batam Island's strongest advocate, clearly illustrated by the way in which the story of Batam's origins has been tailored to his background.

Executive control of Batam illustrated the importance of the President, particularly in his relationships with his ministers, and in the way policies were formulated, decided and made into law. Whilst his influence was not obvious on a daily basis, Soeharto was the key player in the policy-making processes for Batam Island. Soeharto left the major daily decision-making processes to Ibnu Sutowo, Sumarlin and Habibie respectively, giving them almost complete control over the Batam Island project, but it also meant that they remained in those positions for only as long as Soeharto desired. Soeharto demonstrated his power most clearly where there was conflict among his ministers by intervening directly. Soeharto also placed former colleagues and staff into positions where they could exert some influence on his behalf where necessary.

Differences among key senior Indonesian officials were crucial to the policy-making processes on Batam, for the debates over economic policy at the national level were played out on Batam as various groups sought to stamp their mark on the development strategy. Against the national backdrop, the debates surrounding the development of Batam were in no way unusual, but they illustrate how different economic policies as well as seemingly opposing development aims and objectives are formulated and applied in Indonesia.

Both the economic nationalists and technocrats experimented with their respective development strategies on Batam Island, in order to create a useful case to argue against the strategies of the other. If the experience was one of substantially accelerated economic development in a politically manageable way, it could assume the status of a model for the rest of the country. In the early-1970s, it was Ibnu Sutowo's oil-industry-based strategy; in the late-1970s, it was Sumarlin's broad-based industrialisation; during the 1980s, Habibie's economic nationalist structure; and, during the 1990s, an amalgam of Habibie's nationalist high-technology approach with the technocrats' focus on export-oriented manufacturing.

The major conflicts involved those between Ibnu Sutowo and the technocrats, and later between Habibie and the technocrats. In most regards, Ibnu Sutowo and Habibie had complete control over developments on Batam, and they were largely unaffected by interference from the technocrats. This was clear by the way in which Habibie quickly changed the focus of development away from the technocrat's target of broad-based industrialisation towards intermediate, high-technology and capital intensive industries. Where conflict occurred, Soeharto intervened in favour of either of the protagonists.

Whilst the technocrats generally had little influence where Ibnu Sutowo and Habibie were concerned, when Sumarlin handled the project between 1976 and 1978, they stamped their influence heavily on the Batam project. This was obvious in the types of changes enacted for Batam, particularly the regulatory and administrative reforms, which foreshadowed what the technocrats would do to the Indonesian economy when their power and influence increased in the mid-1980s. Their influence was also visible in the regulatory changes introduced on Batam in 1989, as well as other changes during the 1990s.

In the Batam case, however, the policy debates illustrated that the situation at the planning stages was far more fluid than the categories 'technocrats' and 'nationalists' would imply, for divisions in both the technocrats' ranks and among the nationalists did emerge. This was clearly demonstrated by conflict among the technocrats over the issue of Batam's duty-free status in 1978. It was also noticeable in the types of inter-

ministerial conflicts of the mid-1990s where, after the retirement of many of the longest-serving technocrats, the traditional technocrats versus nationalists dichotomy was less obvious than in the past, and conflict became based less on economic ideology and more on personality and portfolio clashes.

Interacting within this structure were clientelistic relationships, highlighting the importance of political and financial patronage. Indeed, one of the most enduring features of the New Order has been the numerous political and economic coalitions between Soeharto, senior bureaucrats and army officers with leading Indonesian business corporations.

Whilst less obvious from the late 1970s to late 1980s, mainly due to the fact that limited economic activity had removed a source of patronage for possible patron-client relationships to develop, Clientelism clearly dominated the economic landscape on Batam under Pertamina during the early-mid 1970s, and later in the 1990s following the quick influx of Jakarta conglomerates who brought with them the business culture of Jakarta. This was particularly clear in the designation of land plots and licenses, and in the awarding of government contracts.

Up until the late 1980s, the state monopolised economic policy and activity on Batam - it was the main investor and it tightly controlled the activities of the private sector through economic nationalist policies - and business was characterised by patrimonial and patron-client relationships. However, as at the national level, the state was forced to turn in the late 1980s to the private sector, because it was both short of resources and had failed to bring about economic development.

Much has been made of the increased importance of the private sector to the Indonesian economy, with the implication that an increased economic role would lead to an increased political and policy role. On Batam Island, the percentage of private investment to total investment was 84% in 1993, up from 50% in 1983. In a sense, this would suggest that the private sector would have more policy input, commensurate with its economic importance. However, this has not been the case.

Not only have patrimonial practices continued unabated but the majority of new domestic private investment on Batam has been made by business elites with good political connections. This is not to deny the importance of small and medium-sized firms, for they have been an active and important component of economic growth on Batam, but relative to the conglomerates, they were small in number and commercial importance, they lacked the capital resources necessary to take up the investment

function being vacated by the state, and they found it difficult to mobilise in the face of powerful figures within the government.

With more experience and greater access to capital, a small number of politically connected conglomerates were better equipped than most pribumi and smaller-sized businesses to seize the opportunities created by deregulation, and the strengthened commitment to the private sector. With an economy increasingly reliant on private sector participation, it was the conglomerates which had the financial resources and expertise to carry out projects identified by the state. As Robison noted,

It is ... within the mainstream of the existing networks of patronage and the major corporate-political alliances that the most dynamic and powerful domestic groups are to be found, and it is here that we see the greatest potential for private capital to fill the increasing investment void left by the state.<sup>2</sup>

The strong clientelistic relationship of leading businessmen and conglomerates with the state on Batam appears to be strengthening and broadening, and there are no indications to suggest that the flow of patronage in the form of business opportunities and other favours such as privileged access to government contracts has slowed in any way. It is more likely that deregulation simply raised the general level of business activity on which fund-raising for patronage purposes depended. Indeed, despite deregulation, business associates of the President, ministers and other senior officials have been able to secure extraordinary favours and preferential treatment in the application of government regulations.

It is important here to emphasise two main points about the conglomerates, and business in general, in Indonesia. Firstly, whilst there is strongest merit in the impression that political patronage and not entrepreneurial energy is the means for accumulating wealth in Indonesia, it is recognised that this description requires qualification. A number of domestic entrepreneurs have developed independent business capabilities, and more than a few businessmen have demonstrated impressive business acumen and real initiative with relatively little political backing. However, whilst there are some relatively independent private capitalists, patrimonial-type behaviour continues to be common and particularly evident in the allocation of contracts for development projects.

Secondly, although political connections have been extremely important in determining the success of major business groups, the extent to which different businesses rely on political connections and state patronage varies considerably, covering the entire

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<sup>2</sup>Richard Robison ; "Industrialisation and the Economic and Political Development of Capital : The Case of Indonesia" in Ruth McVey (ed) *Southeast Asian Capitalists*, p 85.

spectrum from absolute dependency to complete autonomy.<sup>3</sup> In many cases, the major conglomerates derive their profits from both rent-seeking behaviour as well as from production and competition, and not simply on the basis of their political connections. While firms enjoying patrimonial privileges are likely to resist deregulatory pressures, not all will be greatly threatened by them. Some businesses are considerably less dependent on patrimonial privileges than others, particularly those which are large and sufficiently diversified. There are also many who benefit from but do not wholly depend upon protection.

The key to the success of initiatives under the Growth Triangle was the close cooperation of Jakarta's politically well-connected business groups with the Indonesian government. The conglomerates, led by the Salim Group, were at the forefront of all developments, clearly dominating the private investment scene, and both initiating and taking a large share in most major commercial ventures. Moreover, the official encouragement of joint ventures between public enterprises and private firms from Indonesia and Singapore in major investment projects served to enhance cooperation and the interlocking of interests among business groups from the two countries.

The predominance of the conglomerates on Batam, and their close cooperation with the Indonesian government, raises questions about the nature of business-government relations in Indonesia, most particularly how far these conglomerates influenced the Indonesian government's decision to pay closer attention to cooperation with Singapore, and to what extent they have influenced the policy environment since then. The formal endorsement process and sanctioning at the highest levels of the Indonesian and Singaporean governments, the role of political elites, their networks, and those of the business elites clearly come to the fore when one takes a critical look at both the formation and management of development projects in Riau. Given the obviously close cooperation between the Indonesian government and leading conglomerates in developments in the Riau Islands, the question arises whether that cooperation is due solely to clientelistic connections or whether it represents a process of change in business-government relations.

It can be argued that the signalling effects of government intervention are instrumental in fostering development, but the issue is actually what causes those signals. Direct involvement in infrastructure development, institution building, regular discussions

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<sup>3</sup>Due to the importance of these political connections and the various forms of special privileges, contracts, protection, and subsidies received by most of the conglomerates over the previous twenty years, they have been labelled 'rent-seekers' and 'ersatz capitalists'. Kunio Yoshihara ; *The Rise of Ersatz Capitalism in Asia*. The inference is that they are therefore not true entrepreneurs. Whilst criticism may be partly true with regards to many of them, it is an exaggeration to apply it to all. Several have shown impressive business acumen and real initiative, with relatively little political backing. As has been pointed out by Mackie, that they are 'rent-seekers' does not make them any less 'real' capitalists.

with the private sector, and coercive tactics all have profound signalling effects. Yet, surely if the government can have signalling abilities, then so can the private sector through its networks, business activities and personal contacts. For instance, whilst general development on Batam was government-led followed by private sector involvement, the pattern of the major projects on Bintan and Karimun Islands suggests the exact opposite. This tendency has become an important part of developments in the Riau Islands, and may well become an important element in the country's economic management as the private sector's, and particularly the conglomerate's, role is augmented.

The political and economic nature of the government-business relationship on Batam in the 1990s leads one to consider that in the not-too-distant future, Indonesian business interests in coalition with the state will adopt a model similar to Japan's Ministry of International Trade and Industry (MITI) Corporation and cooperate in both domestic and foreign policy.<sup>4</sup> However, not only would there be objections to an Indonesia Incorporated because it would appear to legitimise the practice of government-business coalitions, but the partnership is yet to evolve from a patron-client to a transparent and accountable one. There is no doubt that, and regardless of business acumen, those with strong political connections have benefited considerably on Batam, but there is little evidence to suggest there is something more to the alliance between state actors and businessmen or that it represents a new phase in government-industry relations. The operations of the conglomerates as well as other well-connected businessmen on Batam simply illustrates the way in which the interests of the economic elites are inter-twined with those of the political elites.

Pluralist pressures, particularly non-state societal influences, on the Batam project were initially very weak. The reasons for this lay in the fact that Batam Island was isolated from mainstream Indonesian society; the local population was small, politically marginal and lacked mechanisms for influencing the Indonesian government; and the Riau provincial government was weak in the face of the national government.

However, societal pressures since the late-1980s have impacted on Batam in several ways, and they have centred around distributional issues; that is, the question of the sharing of benefits from the development of Batam. The main distributional issues were : uneven and unequal development on Batam; disparity between Batam and other parts of Riau, and between Riau and other areas of Indonesia; the dominance of domestic political and economic elites in the development of Batam; and the role of Singapore, which nationalist groups held unfairly benefited from Indonesian economic

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<sup>4</sup>Certainly the recent merging of the Trade and Industry Ministries is similar in some respects to MITI. *Far Eastern Economic Review*, 21 December 1995.

development. These criticisms were not necessarily specific to Batam but also appeared at the national level, but they did force the national government to manage what were inherently political overtones.<sup>5</sup>

The main societal and non-state influences since the late 1980s were Pemda Riau, the DPR, the Mass Media, and business associations. Pemda Riau's fortunes on Batam varied over the years but with the creation of the Batam Mayoralty in 1983, and with the strong support of the Ministry of Internal Affairs in the early 1990s, Pemda Riau began to exert more influence over the Batam project where its interests differed from those of the central government.

Both the DPR and the Mass Media contributed to the general debate in Indonesia about developments on Batam Island, and were outspoken on issues such as land acquisition and compensation, on the involvement of Singapore, on the role of local government, and the amount of government expenditure involved in the Batam project. However, whilst sometimes critical, neither the DPR or the Mass Media have been consistent in their impact on the policy-making processes.

Up until the early 1990s, business associations were non-existent on Batam, and where business had influence it was through clientelistic channels, or through tightly-controlled corporatist channels. However, in line with the increasing scope and complexity of economic activity, industry associations emerged on Batam in the 1990s, several of which were outspoken and had policy input.

The influence of external variables is clearly apparent on Batam where we are introduced to external factors and actors previously not considered as an important influence on policy-makers. The experience of Batam illustrates that the Indonesian state has faced external constraints, political but overwhelmingly economic, for it is clear that external forces and uncertainties in the international economy made it difficult for the Indonesian government to pursue consistent policies.

The international economic system had an impact on the policy choices facing Batam Island. In the late 1960s favourable international conditions, especially for the oil industry, made investment in the Indonesian oil industry, and thus the oil services and logistics base on Batam viable, if not attractive. In the same way, however, it was

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<sup>5</sup>On numerous occasions the Indonesian government has defended itself against these criticisms, down playing parochial sentiments and countering 'economic nationalism', thus indicating that distributional issues are politically important. If the fruits of growth are not distributed evenly or quickly enough, any inequities will bring about discontent. Because negativism is often based on perception as much as fact, the government has a role to play in managing the political overtones, in as much as they have a role in liberalising investment regulations, facilitating infrastructure development and overseeing overall development.

unfavourable international economic conditions - a recession and decreased demand for oil in 1974/1975 - which adversely affected Pertamina's plans for Batam Island. In the mid-1980s, a further downturn in the oil market forced a serious re-thinking and re-orientation of development on Batam away from the oil sector towards the current focus on export-oriented manufacturing.

Two external variables were apparent - international capital and foreign governments. Foreign capital played an important role on Batam. Batam's very origins lie in Ingram's choice of a site for its logistics base. Moreover, the need to meet investor conditions in order to attract and maintain foreign investment on Batam meant that foreign capital had an important influence on the policy processes. This was particularly so during the boom periods of the early 1970s and early 1990s. The increased internationalisation of the Indonesian economy has made the state more susceptible to the demands of international investors for an increasing range of reforms.

Cooperation between Singaporean and Indonesian companies proved crucial to the success of Batam. Official encouragement of joint ventures between public enterprises and private firms from Indonesia and Singapore in major investment projects served to enhance cooperation and the interlocking of interests among business groups from the two countries. Not only has this meant long-term beneficial effects in terms of the development of corporate networks, but it has given Indonesian companies leverage vis-a-vis the Indonesian government. The case of BIP is particularly interesting in this regard as it is clear that the Singaporean partners were not the only influence on Indonesian policy-makers. Whatever their motivation, the fact that several of the large domestic conglomerates now have links with the international economy and with foreign capital may well be altering their negotiating strength vis-a-vis Indonesian policy-makers.

Foreign governments also influenced the Batam Island policy processes. The Japanese government influenced the formulation of the 1972 Batam Master Plan, Kuwait kept alive hopes for the construction of an oil refinery, but it was Singapore that was the most important external consideration in the minds of Indonesia's policy makers simply by virtue of its geographical proximity to Batam Island.

Whilst there was an element of rivalry and competition between Indonesia and Singapore in the early 1970s, the signing of the Batam Agreement in 1980 marked a turning-point in Batam Island's development, not only because it focused Batam's development on complementing Singapore but because Singapore also appeared willing to cooperate. Whilst the Singapore government was not able to achieve its main objective in 1980, which was to help develop and manage the Batam industrial area for

relocating Singapore companies, in 1989 Singapore was particularly influential in obtaining new regulations on foreign investment and industrial estates. It also appears quite clear that the Singapore government applied pressure on the Indonesian government to participate in the Growth Triangle, the catalyst for the development of the Riau Islands.

The Singapore government continued to be a policy consideration in developments on Batam and surrounding islands during the early 1990s, and its role in the setting of the policy agenda appeared to have been significant, through either direct representations to the government or through Indonesian partners with special access to power and policy-making. Most importantly, the notion of the IMS-GT which emerged in the early 1990s represented a radical departure in Indonesia-Singapore economic cooperation, and indicated the emphasis Indonesia's political elite placed on economic cooperation with Singapore. The role of Singapore signals that not only external factors, but external actors, are a consideration in Indonesian economic policy-making.

Before concluding this discussion about what these features tell us about Indonesian political economy, several important qualifications need to be made. Although developments in regards to Batam ran parallel with national developments, they were not identical. The first difference was that a key feature of Indonesian political economy was starkly absent. As the most powerful New Order institution, ABRI permeates Indonesian politics, society and economy, but on Batam its influence appears to be marginal, confined to matters of internal security and some minor business investments. In the wider Indonesian political economy, the role of ABRI cannot, of course, be discounted.

The second difference is that conflict between the technocrats and their rivals on Batam was less pronounced than at the centre, particularly vis-a-vis Ibnu Sutowo in the early 1970s, Habibie in the 1990s, and the cronies throughout the 1980s and 1990s. The reasons for this were twofold. Firstly, because of its relative isolation, developments on Batam and other Riau Islands were unlikely to be disruptive to the totality of national policy issues and considerations. As it was insulated from the rest of the economy, policies were less likely to become a source of conflict between the technocrats and the nationalists. Secondly, because Batam was started from scratch there were no powerful established vested interests, particularly business interests, which were harmed by technocratic policies. This goes some way to explaining why there was apparently little conflict between the technocrats and the cronies.

The third difference is that because it is located on the geographic periphery of Indonesia, Batam was more susceptible to external influence than many other areas of

Indonesia. This factor explains the influential role of Singapore on developments on Batam and surrounding islands, a role which Singapore does not play elsewhere in Indonesia. Therefore the heightened sense of external influence on Batam may not reflect its true importance to Indonesian political economy as a whole.

Nonetheless, and despite the differences, the similarities of the policy-making processes do suggest that policy-making on Batam Island is strongly indicative of Indonesian political economy under the New Order in general. Like the Indonesian political economy in general, the political economy of Batam is characterised by what might best be described as elite politics. Patrimonialism, combined with the closely-connected features of patron-client relationships and intra-elite politicking, has consistently dominated the policy-making processes under the New Order government headed by President Soeharto.

That Indonesian politics is so centralised and political competition so confined to senior officials (and their clients) in the upper reaches of the government is not to deny the existence of other influences. Indonesian societal groups have demonstrated that they can have policy input. Likewise, external variables have affected the policy environment. It should also be remembered that society places inhibitions on a range of policy choices - the political legitimacy of the Soeharto regime is essentially based on its ability to solve economic problems efficiently and equitably. However, non-state actors have been inconsistent in their infiltration of the policy-making processes. Non-state influence has been the exception rather than the rule, and has generally occurred where the interests of the political and business elites have been separate. The view here, therefore, is that societal influences are not a major constraint on the Indonesian state's policy-makers but at the same time it is recognised that policy-making is not confined simply to actors within the state apparatus.

In tracing Batam's economic development, various interactions become apparent - between domestic and international variables, between public and private interests, between state and civil society, and within the state itself. This study therefore illustrates the need for studies of the political economy of Indonesia, as well as those in a wider, regional context, to take several factors into account. Whilst the state is clearly important, and is likely to remain the pivot point, approaches to Indonesian political economy need to be supplemented by a focus on society in order to understand its true character. Consideration must be given to an institutional approach which emphasises pressures from the private sector, provincial governments, the parliament and other societal and non-state groups, as well as external variables. It is argued, therefore, that while the main focus should be on the state, non-state influences must also be analysed in order to explain Indonesian political economy.

Moreover, beyond a need to make a comprehensive consideration of all actors - real and perceived, probable and possible - it is also important to understand that their importance or influence varies over time. The balance between the numerous political, economic and social actors and forces is ever-changing. Political economy is not static, rather it is a complex and dynamic set of variables, difficult to depict in hindsight or *in situ*, and highly unpredictable as a future form.

What then of Indonesia's future? The longevity of the New Order state under Soeharto, and the persistence and dominance of patrimonial politics suggests that the main features of policy-making are systemic. However, whether the policy-making processes will remain unchanged under a new government or President is difficult to determine. On the one hand, the widespread entrenchment of patrimonial and patron-client relationships in Indonesia suggests that a change of President would simply change the face of government but not the processes of policy-making. On the other hand, a change in the structure of governance would likely have an impact on those processes, but this would require changes to political institutions and to the Executive's dominance of the state's processes.

# Appendix A

## Agreement

between

THE GOVERNMENT OF THE REPUBLIC OF INDONESIA

and

THE GOVERNMENT OF THE REPUBLIC OF SINGAPORE  
ON THE ECONOMIC COOPERATION IN THE FRAMEWORK  
OF THE DEVELOPMENT OF BATAM\*

THE GOVERNMENT OF THE REPUBLIC OF  
INDONESIA

AND

THE GOVERNMENT OF THE REPUBLIC OF  
SINGAPORE

DESIROUS to promote economic cooperation between the two countries (hereinafter referred to as the Parties), on the basis of equality and mutual benefit within the ASEAN spirit, particularly in the development of the Industrial Region of the Batam Island of the Republic of Indonesia (hereinafter referred to as Batam).

WITH A VIEW TO ARTICLES 1 and 2 of the Basic Agreement on Economic and Technical Cooperation between the Government of the Republic of Indonesia and the Government of the Republic of Singapore signed on the 29th of August 1974.

Have agreed as follows :

### ARTICLE 1

#### TRADE OF GOODS AND SERVICES

(1) Without prejudice to their respective trade systems, both Parties agree to develop, between Singapore and Batam, a simplified and mutually beneficial procedure of flow of goods, payment and delivery.

(2) Within the framework of enhancing international trade, both Parties shall develop a mutually beneficial system of marketing of goods and services, with the possibility thereof to facilitate joint undertakings, and shall utilise, to mutual benefit and to the maximum extent possible, the available transshipment and warehousing facilities in Batam.

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\* Source : Keputusan Presiden No.64 1980 (21 November 1980).

**ARTICLE 2  
INDUSTRY**

- (1) Without prejudice to their respective industrial systems, both Parties shall cooperate to develop a mutually beneficial industrial system, including the industrial, infrastructural and technological development.
- (2) In implementing the cooperation in the field of industry, both Parties agree to utilise the available services in Singapore and Batam in the sector of industrial repair work and other industrial services.

**ARTICLE 3  
CAPITAL AND BANKING**

Both Parties agree to take necessary steps to facilitate the availability of capital and banking services needed for the development of Batam in accordance with their respective prevailing laws and regulations.

**ARTICLE 4  
COMMUNICATION**

Both Parties shall cooperate to develop to mutual benefit pursuant to their respective laws and regulations, the services in the field of communication including Land, Sea and Air Transports, Post and Telecommunications, Tourism, Meteorology and Geophysics and Search and Rescue (SAR) between Singapore and Batam.

**ARTICLE 5  
EXCHANGE OF ADVISERS, EXPERTS AND TECHNICIANS**

Each Party shall, in accordance with the prevailing laws and regulations, adopt necessary measures to facilitate exchange of advisers, experts and technicians carrying out activities under this Agreement.

**ARTICLE 6  
TAXATION**

Both Parties agree to take measures in the field of taxation which will encourage investment in Batam, including simplification of tax administration procedures and methods for the avoidance of double taxation, in accordance with their respective prevailing laws and regulations.

ARTICLE 7  
CUSTOMS AND EXCISE

Both Parties agree subject to their respective laws and regulations to simplify the procedures for the flow of goods between Singapore and Batam, including the processing of documents for such a speedy flow of goods.

ARTICLE 8  
IMMIGRATION

(1) Both Parties agree, within the framework of cooperation set forth in this Agreement, to establish regulations to facilitate the flow of persons between Singapore and Batam.

(2) Both Parties, if they deem necessary, shall cooperate to solve any immigration problem relating to the flow of persons between Singapore and Batam.

ARTICLE 9  
FURTHER ARRANGEMENT

With due observance to the regulations in each country, both Parties can make further arrangements to secure the implementation of the Agreement conducted by the respective authorities.

ARTICLE 10  
LIABILITY CLAUSE

(1) The Government of the Republic of Indonesia shall be responsible for dealing with claims which may be brought by third parties against the Singapore advisers, experts and technicians or other persons sent at the request of the Government of Indonesia and performing official services in Batam and shall hold them harmless in Batam in respect of claims or liabilities arising from operations under this Agreement, except liability arising from the gross negligence or wilful misconduct of the said individuals.

(2) The Government of the Republic of Singapore shall be responsible for dealing with claims which may be brought by third parties against the Indonesian advisers, experts and technicians or other persons sent at the request of the Government of Singapore and performing official services in Singapore and shall hold them harmless in Singapore in respect of claims or liabilities arising from operations under this Agreement, except liability arising from the gross negligence or wilful misconduct of the said individuals.

ARTICLE 11  
TERRITORIAL APPLICATION

(1) This agreement shall be applied within the territory of the Republic of Singapore and of the Republic of Indonesia in the Industrial Region of the Batam Island.

(2) The "Industrial Region of the Batam Island" consists of Batam Island, group of Islands of Janda Berias, and Islands of Tanjung Sau, Ngenang and Kasem as stipulated by the Government of the Republic of Indonesia.

(3) The provisions of this Article shall not prejudice relevant national laws and regulations of the Republic of Indonesia and of the Republic of Singapore and existing agreements between the two Parties.

**ARTICLE 12  
SETTLEMENT OF DISPUTE**

Any dispute between the two Parties concerning the interpretation or implementation of this Agreement shall be settled amicably through consultation or negotiation and without having to resort to legal or quasi-legal bodies for the justiciable resolution of any dispute.

**ARTICLE 13  
ENTRY INTO FORCE**

(1) Each Party shall notify the other on the fulfilment of their respective constitutional requirements for the entry into force of this Agreement. This Agreement shall enter into force on the date of notification of either Party who makes the later communication.

(2) This Agreement shall remain in force for a period of five years and shall be tacitly extended for successive period of five years.

(3) This Agreement may be denounced by either Party subject to six months prior written notice.

(4) In order to promote the implementation of this Agreement and of the further arrangements to be concluded in accordance with Article 9 of this Agreement, representatives of the two Parties shall meet as and where required to inform each other of the progress in the implementation of this Agreement and any other matters pertaining to the development of Batam.

IN WITNESS WHEREOF the undersigned, duly authorised by their respective Governments, have signed this Agreement.

DONE at the Republic of Singapore on this thirty-first day of October 1980, in duplicate in the Indonesian and English languages.

In case of any divergence of interpretation, the English text shall prevail.

**SUDJATMIKO**  
Ambassador Extraordinary and Plenipotentiary  
For the Government of the  
Republic of Indonesia

**GOH CHOK TONG**  
Minister for Trade and Industry  
For the Government of the  
Republic of Singapore

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