

Webinar Report:

Reflection of 2019 Competitiveness Analysis and Outlook of the New Normal Era: Development of the Special Economic Zone (SEZ) to Improve Riau Islands Competitiveness

On Thursday, 27 August 2020, ACI conducted a webinar for the Riau Islands province, titled “The Inaugural Provincial Dialogue on the Economy and Development 2020 for Riau Islands”. The webinar was a part of ACI’s Subnational Competitiveness Webinar Series. Those in attendance included senior officeholders from various government agencies from Riau Islands province, members of Indonesian Employers’ Association (APINDO) of Riau Islands, and academics from the Polytechnic of Batam.

Webinar 1: The Inaugural Provincial Dialogue on the Economy and Development 2020 for Riau Islands 2020

Thursday, 27 August 2020
09.00 – 11.00 (GMT+7)

Dialog Perdana tentang Ekonomi dan Pembangunan Provinsi Kepulauan Riau 2020

27 Agustus 2020
0900 - 1100 (WIB)

Sesi 1: Analisis Daya Saing Provinsi-Provinsi di Indonesia

Pembicara: 1. Hilda Kurniawati
Asia Competitiveness Institute
Lee Kuan Yew School of Public Policy
National University of Singapore

Sesi 2: Refleksi Daya Saing Provinsi Kepulauan Riau 2019 dan Outlook Daya Saing dalam Tata Negeri Normal Baru: Pengembangan Kawasan Ekonomi Khusus (KEK) dalam Meningkatkan Daya Saing Provinsi Kepulauan Riau

Pembicara: 1. Drs. Naharuddin, M.TP
P.L. Kepala
Badan Perencanaan, Penelitian, dan Pengembangan
Provinsi Kepulauan Riau

2. Rafki Rasyid, SE., MM
Ketua
DPP APINDO Kota Batam

3. Bambang Hendrawan
Dosen/Kepala Pusat Kajian Daya Saing Kawasan
Politeknik Negeri Batam

Zoom Webinar ACI

Agenda

0900 - 0905: Pembukaan dan Perkenalan Pembicara

0905 - 0925: Analisis Daya Saing Provinsi-Provinsi di Indonesia
(Sesi 1)

0925 - 1010: Refleksi Daya Saing Provinsi Kepulauan Riau 2019 dan Outlook Daya Saing dalam Tata Negeri Normal Baru: Pengembangan Kawasan Ekonomi Khusus (KEK) dalam Meningkatkan Daya Saing Provinsi Kepulauan Riau (Sesi 2)

1010 - 1040: Sesi Dialog

1040 - 1100: Q&A

Opening Remarks

The webinar commenced with Opening Remarks from Professor Paul Cheung, the Director of Asia Competitiveness Institute. Professor Cheung began his opening remarks by giving appreciation to all speakers and participants who joined the webinar. Professor Cheung has highlighted that there has been major disruption in many aspects of life, due to the COVID-19 pandemic. Comparing the tourism sectors in Riau Islands and Singapore, Professor Cheung mentioned the adverse impact on both the economies due to the sudden decline in tourism activities through 2020. Given the rapid transformation in economic structure and work

dynamic in Indonesia and globally, Professor Cheung hopes that the webinar will provide a sustainable platform for key policymakers and stakeholders in the province to engage in meaningful discussions on economic conditions and strategic directions moving forward.

Session 1

2020 Annual Update of ACI's Competitiveness Rankings and Simulation Studies of Riau Islands

Speaker: Hilda Kurniawati
Research Assistant
Asia Competitiveness Institute, Lee Kuan Yew School of Public Policy
National University of Singapore

ACI research provides a quantitative framework to track the competitiveness level of all the provinces across Indonesia. Key notable findings are as follows:

- In 2020, Riau Islands' overall ranking has dropped from 10th to 11th placing, out of 34 provinces.
- Out of 10 provinces in the Sumatra region, Riau Islands is ranked 1st in Overall Competitiveness.
- Compared to 2019, Riau Islands' rankings in 2020 for the four environments have undergone the following changes:
 1. Macroeconomic Stability: Dropped from 5th to 8th rank
 2. Government and Institutional Setting: Dropped from 21st to 24th rank
 3. Financial, Business and Manpower Condition: Increased from 7th to 6th rank
 4. Quality of Life and Infrastructure Development: Dropped from 8th to 11th rank
- Top three strongest indicators:
 1. Openness to Trade
 2. Primary Industry Productivity
 3. Firms' Performance
- Top three weakest indicators:
 1. GRDP Growth
 2. Internet Access at School
 3. Provincial Governing Capacity

Based on the 2020 results, ACI identifies key areas of improvement for Riau Islands, such as improving efficiency and provincial governing capacity, specifically on the institutional coordination, promoting labour climate to enhance competitiveness and collaboration of the business actors, as well as developing infrastructure and technology to enhance economic development.

Session 2:

Reflection of 2019 Competitiveness Analysis and Outlook of the New Normal Era: Development of the Special Economic Zone (SEZ) to Improve Riau Islands Competitiveness

Speaker: Drs. Naharuddin, M.TP
 Head (interim)
 Regional Planning, Research and Development Board (Balitbangda)
 Province of Riau Islands

 Rafki Rasyid, SE., MM
 Head
 DPP APINDO Riau Islands

 Bambang Hendrawan
 Lecturer/Head of Center of Competitiveness and ASEAN Study (CoCAS)
 Polytechnic of Batam

Overview of Riau Islands' Special Economic Zones (SEZs)

According to the National Council for Special Economic Zones (SEZ) of Indonesia, there are 15 SEZs that have been developed in Indonesia, in which special facilities and incentives were accorded to attract investment. Galang Batang SEZ is the first SEZ in Riau Islands, established through the Government Regulation Number 42 of 2017, which was promulgated on 12 October 2017. It is located in Bintan district, Riau Islands, where an area of 2,333 hectares is allocated for two core industrial activities: (i) alumina and bauxite seeds processing; and (ii) refining, logistics, and energy. The SEZ is forecasted to attract investment values of up to Rp 36.25 trillion (USD 2.4 billion) and create a total of 23,200 jobs by 2027. Two other SEZs in the province are the Tanjung Sauh and Pulau Asam SEZs. The development of these two SEZs is in line with the development of other supporting infrastructures such as the Batam-Bintan Bridge, Batu Ampar Port, and Batam Light Rail Transit (LRT).

The New Proposed SEZs in Riau Islands

In July 2020, the National Council for Special Economic Zones of Indonesia has agreed to develop two new SEZs in Riau Islands, namely Nongsa Digital Park (NDP) and MRO Batam Aero Technic (BAT). These SEZs are expected to be the entry point for foreign IT companies and the aircraft maintenance and repair service industry, respectively. It is expected that the two SEZs will create 26,476 jobs. The SEZs are expected to be operational by 2023. In addition to that, Mr. Bambang from the Polytechnic of Batam iterated that if the Government Regulation of the two SEZs are officially established, Riau Islands will become one of only two provinces in Indonesia to house more than one SEZ.

Challenges of the Riau Islands SEZs

However, there are a few key challenges faced by industries operating in the Riau Islands SEZ. Mr. Rafki Rasyid from DPP APINDO Riau Islands highlighted that several demonstrations by university students has disrupted labour productivity and mobility in the zone. These students protested against the employment of hundreds of foreign experts working for PT. Bintan Alumina Indonesia (BAI) in Galang Batang SEZ. Additionally, he argued that at the initial

development phase, a company requires expert workers which could not be sourced locally. Apart from the skills mismatch issue, Mr. Rafki also mentioned two other issues regarding the ease of doing business in the province. Firstly, business actors agreed that the logistical cost in the province remains expensive. For instance, the cost for a container is SGD 700. Secondly, the tax holiday incentives are only limited to 18 pioneer industries, which makes the business climate less attractive.

Moving Forward

To deal with the demonstration and skills mismatch issues in the SEZ, Mr. Naharuddin clarified that the government will soon provide information to the wider society regarding the needs for the private sector to employ foreign experts. He agreed that there has been an undersupply of experts in the province. Mr Naharuddin mentioned that the government sector will further improve the vocational education and trainings to close the skill gaps. Mr. Bambang also agreed that enhancement of the vocational education based on link and match framework needs to be complemented by the provision of super tax deduction for industries that support the training program. Not only that, information and technology systems of the labour market also need to be upgraded to integrate information between prospective workers, companies, and educational institutions. As a closing remark, Mr. Bambang argued that good internal governance is the key to achieve sustainable competitiveness in the long term.