THINKING OUTSIDE THE TRIANGLE:
COLLUSION AND RIVALRY BETWEEN TRANSNATIONAL CORPORATIONS
AND THE STATE IN BATAM, INDONESIA

A thesis presented to
the faculty of
the Center for International Studies of Ohio University

In partial fulfillment
of the requirements for the degree
Master of Arts

Elliot R. Field
June 2006
This thesis entitled

THINKING OUTSIDE THE TRIANGLE: COLLUSION AND RIVALRY BETWEEN
TRANSNATIONAL CORPORATIONS AND THE STATE IN BATAM, INDONESIA

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Abstract

FIELD, ELLIOT R., M.A., June 2006. Southeast Asian Studies

THINKING OUTSIDE THE TRIANGLE: COLLUSION AND RIVALRY BETWEEN
TRANSNATIONAL CORPORATIONS AND THE STATE IN BATAM, INDONESIA
(111 pp.)

Director of Thesis: Yeong-Hyun Kim

The Singapore government unveiled a regionalization program in 1989 popularly known as the Singapore-Johor-Riau (SIJORI) Growth Triangle. The regionalization program brought about the rapid industrialization of Batam, Indonesia with the ardent support of government bodies in Singapore and Indonesia, as well as transnational corporations relocating labor intensive operations. This thesis examines how the relationship between transnational corporation managers and the state has shifted between collusion and rivalry since the unveiling of the SIJORI Growth Triangle. Interactions with government representatives and case studies of two transnational corporations currently operating in Singapore and Batam are used to evaluate the current relationship between transnational corporations and the state, as well as identify emerging trends in Batam’s state-firm relations.

Approved:

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Acknowledgments

I would like to express my infinite thanks and appreciation to my advisor Dr. Yeong Kim for her endless accessibility, insight and encouragement during every step of the thesis process. I am also grateful to my committee members, Dr. Drew McDaniel and Dr. Shamila Jayasuriya for their assistance and guidance. I would like to thank the Center for Southeast Asian Studies for the grant which permitted me to travel to Singapore and Indonesia to collect my research.

I would also like to thank my community of friends and colleagues both at Ohio University and in Batam, Indonesia who, without their advice and assistance, my research would not be possible. Thank you Karla Schneider, Ezki Widianti, Suharni Soemarmo, Lewinna Aguskin, Alejandro Reyes, Lela Amin and Rumbadi Dalle.

Finally, I am so grateful to have such a supportive clique of family and friends encouraging me every step of the way. First and foremost to my father Elliot Field, and my sister Maureen Guarcello, a.k.a. ‘We Three’. Thank you Rachael Szydlowski for your support and empathy throughout this process, and finally a warm debt of gratitude goes to my best friend Mike Lambert for his daily encouragement and humor.
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Chapter 1

Introduction

The Growth Triangle was a political triangle but an economic line. There were huge plans for integration, joint immigration cards between Singapore and Malaysia. None of that ever materialized… Among the three, the strongest was the link between Singapore and Batam. There has always been a close business relationship across the Causeway, but the GT included Malaysia as a political nod when it was really centered around Singapore and Batam… Now the only role for Batam is with the small companies (P. Overmyer, personal interview, August 1, 2005)

The Singaporean government announced the inception of the Singapore-Johor-Riau Growth Triangle (SIJORI-GT) in 1989, in pursuit of the regionalization of its economy. The SIJORI Growth Triangle concept however, looks quite different from the Singapore-Johor-Riau Growth Triangle reality. As the executive director of Singapore’s International Chamber of Commerce notes above, the arrangement was a geometric misnomer from the very beginning. Trade and investment on the Johor, Malaysia - Riau, Indonesia side of the Triangle never materialized. The Growth Triangle was in fact more of a two-legged Growth ‘V’, with Singapore’s closely controlled economy standing at its apex. Commerce across the Causeway between Singapore and Johor Baru, Malaysia predated the Growth Triangle strategy; it was both market-driven and historic. The link between Singapore and Riau, specifically Batam Island, Indonesia, however, did not have a storied history. Rather, economic linkages between Singapore and Batam were established during the late 1980s and 1990s; driven by collusion between Indonesia and Singapore’s government and transnational corporations moving labor intensive production facilities from Singapore to Batam.
Batam’s rapid population growth, industrial estate development and greenfield investment were attributed to Growth Triangle arrangements. Batam’s economic landscape was completely overhauled in the 1990s, impacted most heavily by political decision-making and national development strategizing in Singapore, not Indonesia. This pattern continues in the second phase of Batam’s industrialization, marked by Singapore government initiatives targeting the regionalization of small and medium sized enterprises.

The majority of research on the evolution of the SIJORI Growth Triangle exposes its geometric inaccuracies; however little research proceeds beyond deflating the SIJORI Growth Triangle’s misshapen arrangement. Focusing specifically on the Singapore-Riau link of the Growth Triangle, my research questions target the past, present, and future of the relationship between two of the major players in Batam’s phases of development: transnational corporations and the state.

**Figure 1.1: The SIJORI Growth Triangle**
Source: Sree & Lee, 1991
1.1 Research Questions and Fieldwork

This research analyzes how periods of collusion and rivalry between transnational corporations (TNCs) and the state affect flows of foreign direct investment (FDI) in Batam. By transnational corporations I refer to TNCs now operating in Batam, the majority of which were regionally headquartered and operating entirely in Singapore until 1990 or soon thereafter, when under the SIJORI Growth Triangle scheme they divided operations between Singapore and Batam. By the state I intend to address actions by national governments in both Indonesia and Singapore in order to reveal how state-state-firm relations vacillate between collusion and rivalry. Although policies of both national governments are examined, the impetus for Batam’s phases of development hinge more closely on Singaporean state action, in spite of Batam comprising one island of the greater Indonesian archipelago.

My research questions followed two lines of inquiry. The first targeted managerial arrangements among TNCs within the SIJORI Growth Triangle. I inquired about the incentives to, and outcomes of, moving labor intensive industries from Singapore to Batam, as well as the managerial relationship between factories in Batam and offices in Singapore. I questioned how this relationship evolved over time in both Singapore and Batam. Secondly, I inquired about the role of the state in Singapore and Indonesia in encouraging or inhibiting the flow of FDI among TNCs, as well as the capacity of the state to attract new investment. The second line of questioning opened a chasm of new information and insight, leading to new perspectives on state-state-firm collusion and rivalry along the Singapore-Riau side of the SIJORI Growth Triangle.

- What is the relationship between company facilities in Singapore and those in operation in Batam?
• How has the investment climate in Batam changed since the Growth Triangle surge in the late 1980s and the early 1990s?
• What is being done at the governmental level to retain current investment and attract new investment in Batam?
• What is the role of Singapore’s small and medium sized enterprises in Batam?
• What does the future look like for the Singapore-Riau link of the SIJORI Growth Triangle?

I spent seven weeks in Singapore and Batam during the summer of 2005. I collected data on Batam’s investment environment from the Singapore Department of Statistics, Singapore Economic Development Board, Batam Industrial Development Authority (BIDA) of Indonesia and Badan Pusat Statistik Kota Batam; the Batam Central Statistics Agency. In Singapore I interviewed a senior research fellow at the Institute for Southeast Asian Studies, a TNC manager of a firm with production facilities in Batam, and the executive director of the Singapore International Chamber of Commerce. In Batam I interviewed the Batam City Council chairman of the investment board, BIDA’s marketing manager and the chairman of the Batam Industrial Development Authority.

I conducted in-depth personal interviews with TNC managers from three firms with production facilities in Batam and offices in Singapore. These interviews and other information gathered from firm offices provided ample information for case studies of two of the firms that represent the state-firm collusion and rivalry present in the Singapore-Riau side of the SIJORI Growth Triangle. Case study results are detailed in Chapter V and Chapter VI. I was also able to interview the general manager of operations of Batamindo Industrial Park, the preeminent industrial estate in Batam, employer of over 60,000 workers. All interviews were conducted in English, in a semi-standardized fashion. Each interview was conducted with uniform sets of questions, but in altered
sequences, and included follow up questions to elicit more information from interview subjects.

1.2 Study Area: Batam and the SIJORI Growth Triangle

Batam is a rapidly industrializing tropical Indonesian island situated 20 kilometers from the city-state of Singapore. High speed ferries bring visitors to and from ports in Malaysia and Singapore, making over 130 trips daily. The island is located at 1:07 N and 104:07 E. The terrain consists predominately of rolling hills, the highest point only 161 meters above sea level. Batam is 415 km², approximately 67% of the size of Singapore. Batam lies in close proximity to the islands of Rempang and Gelang, also part of the Riau Archipelago. These three islands combine to form the great Batam area of BARELANG. Connected by a series of bridges, the area covers 715 km² (BIDA, 2004).

Politically, Batam is part of the recently established Kepulauan Riau or Riau Archipelago Province, with its capital in Tanjung Pinang, Bintan Island. Batam is far and away the most populous island in the province. Difficulty regulating immigration flows in the archipelago persists, but government projections estimate that Batam’s population stands at 626,113 residents. The working population of this group enumerates 224,332 or 36% of the total population. Because of the transnational corporation (TNC) presence, there are also 3,169 active foreign nationals in Batam (BPS, 2005).

Batam’s connection to the world economic community is intrinsically linked to transnational corporations’ global operations, as well as Singapore and Indonesia’s economic policies during the 1980s and 1990s. Over 700 TNCs operate in Batam, and since 1990 they have been the main drivers of the island’s economy. Singapore’s ‘second
industrial revolution’ and regionalization program implemented by the government to advance the country’s economy led to the SIJORI Growth Triangle concept and the Singapore-Batam FDI path reality.

The SIJORI Growth Triangle is a concept of maximizing comparative advantages in complementary regions. It involved TNC cross-border relocation of labor intensive operations from Singapore to Johor Baru, Malaysia and Batam, Indonesia. The Singapore-Riau leg of the Growth Triangle concept became reality in Batam because of the push from Singapore, but was also attributed to action taken by the New Order government in Indonesia in liberalizing the economy to welcome TNC foreign direct investment. These aspects were necessary for state-state-firm collusion to materialize in Batam. To sufficiently understand current conditions of investment in Batam, as well as projecting the island’s future beyond the Growth Triangle, such topics will be addressed in the following chapters.

1.3 Organization of Chapters

Chapter 1 Introduction
Chapter 2 Collusion and Rivalry between the State and Transnational Corporations
Chapter 3 The Singapore State and Regionalization
Chapter 4 Batam’s Economic Development
Chapter 5 Collusion and Rivalry in the SIJORI Growth Triangle
Chapter 6 Transnational Corporations in Batam
Chapter 7 Beyond Collusion and Rivalry: Emerging Trends in Batam
Chapter 8 Conclusion
Chapter 2

Collusion and Rivalry between the State and Transnational Corporations

This chapter reviews transnational corporations (TNCs) and their relationship with hosting national governments. The role played by TNCs in developing countries has been examined from numerous angles. Overwhelmingly headquartered in the developed world, TNCs relocating their production divisions in developing countries have been analyzed in terms of their management structure and allocation of decision making powers across time and space. For example, the incentives and drawbacks of centralized versus decentralized management powers have been examined extensively in the literature (Bartlett & Ghoshal, 1995). Furthermore, studies of FDI in developing countries have delved into the efficacy of technology transfer to the local job market, labor relations between TNCs and local populations, as well as the general geographical organization of transnational corporations. Contributing to the body of work on the dynamics of TNCs in developing countries, this study focuses specifically on the relationship forged between transnational corporations and the state within a developing country framework.

National governments establish unique investment incentive packages, thus creating various levels of attractiveness for foreign direct investment, while simultaneously attempting to protect national interests. Unique incentives for investment across borders present strategic options for TNC managers deciding destinations of
foreign direct investment. The state and transnational corporations maintain a symbiotic but fluid relationship throughout the process. Relations are not always harmonious. A helpful framework derived to explain this relationship is known as the ‘collusion-and-rivalry framework’ (Pitelis, 1991: Dicken, 1994).

2.1 Transnational Corporations (TNCs)

The costs of market imperfections are expressed most clearly when heightened ‘arms-length’ transactions take place between producers of goods and services. Rather than exposing themselves to such imperfections, producers react to high costs by internalizing production, thus diminishing such transactions. With time, trade between producers within a domestic system may give way to a flow of goods within production networks that are organized globally rather than nationally (Evans, 1997). When producers undergo internalization and interact interdependently across national boundaries to capture various advantages, the formation of a transnational corporation begins to take shape (Yeung, 1998).

Like the strategy itself, the definition of a transnational corporation is quite flexible. Rather than emphasizing how many countries a firm operates in to determine its “global reach”, the transnational approach assesses global reach based on the interactions between facilities, often across national boundaries. Rather than acting as mere appendages, the transnational approach necessitates multilateral flows of goods, resources, and information. Both top-down and bottom-up communication networks are replaced by a multilateral, interdependent, and asymmetrical system whereby production units can be relocated or replaced at a moment’s notice. The transnational strategy requires an enormous amount of managerial acumen and attention, but the lean nature of
its activities fit well in a competitive and mobile global market (Segal-Horn & Faulkner, 1999).

To most effectively execute transnationally, corporate managers seek out destinations for foreign direct investment which not only maximize profit, but reduce other market imperfections such as uncertainty in production. The following table expresses advantages to foreign direct investment from the perspective of the TNC. It is apparent that chasing low wages across borders is a contributing factor, but certainly not the only impetus for operating transnationally. Cultivating a collusive relationship and striking mutually beneficial, reliable arrangements with the state certainly plays into a lucrative transnational strategy.

Table 2.1

Advantages to Global Operations

| Economies of Scale                                                                 | 1. Increased production spreads fixed costs over a wider base, lowering per unit cost (Bryan, Fraser, Oppenheim & Rall, 1999, 8).
|                                                                                   | 2. Production facilities in multiple countries insulate a corporation from exchange rate shifts, strikes and natural disasters.
|                                                                                   | 3. Coupled with a decentralized management strategy, economies of scale in multiple locations alleviates pressure from an overloaded center.
|                                                                                   | 4. Greater ability to tap new consumer markets and seek out new innovations and ingenuity from formerly inaccessible sources of human capital.
| Innovations in Management                                                        | 1. Increased production in multiple locations facilitates efficiency improvements, provided innovations in production are distributed throughout the production network; learning by doing.
|                                                                                   | 2. Worldwide learning. Global operations provide greater access to new, untapped, innovative talent.
|                                                                                   | 3. Learning not only from within the firm, but also technological and marketing learning from competing firms internationally (Dunning in Pitelis and Sugden, 2000, 133)
| Low-cost Factors of Production                                                   | 1. Favorable tax policies and other incentive packages.
|                                                                                   | 2. Lenient labor standards and competitive wages.
2.2 The State and TNCs

From the table above, the shaded section of advantages to implementing a global production scheme is largely constructed by state policies pertaining to the investment environment within a given country’s borders. Market imperfections presuppose transaction costs and varying levels of uncertainty in production for transnational corporations (Ietto-Gilles, 2002). In order to maximize FDI potential, national governments aim to reduce uncertainty and create an optimal investment climate for TNCs while simultaneously protecting national interests. “States can try to make their territories attractive, but they cannot dictate the structure of global production networks” (Evans, 1997, 66). The importance of an attractive investment environment increases as transnational corporations continue to seek out new, more profitable destinations for relocating operations.

Transnational corporations capitalize on the mechanisms of globalization. As transportation and communication costs drop, corporate managers are able to more easily transfer critical factors of production across country lines. Such action has challenged the traditional definition of comparative advantage between countries (Stopford, 1999). The fluidity with which TNCs are able to move factors of production increases the importance of a state’s investment incentives to attract and retain transnational FDI. Each state varies in the incentives it offers TNCs. The state must weigh the benefits and potential threats FDI inflows pose to a country’s economic and political wellbeing.

They (the state) want the benefits of foreign direct investment (FDI) and are increasingly prone to intervene to increase their
share, but fear the consequences when other nations do the same. They also fear possible losses of national sovereignty (Stopford, 1999, 383).

Similarly, TNC managers are likely to be aware of the advantages and risks involved in operating transnationally, as well as the uncertainty surrounding the reliability and longevity of incentive packages when they are set forth by the state. Nevertheless, the fact remains that TNCs require a reliable state structure and body of government policies in order to operate most effectively. Market failures emerge from inefficient state intervention, but capable state engagement provides benefits for a profitable TNC.

Powerful transnational economic actors may have an interest in limiting the state’s ability to constrain their own activities but they also depend on a capable state to protect their returns (Evans, 1997, 78).

The firm and the state collectively establish a flexible relationship moving between collusion and rivalry. Neither the external economic environment nor the internal dynamics between TNCs and national governments are fixed, but fluid over time. “The interaction between governments and MNEs (multi-national enterprises) needs to be studied in the context of a constantly changing world economic and political landscape” (Dunning, 1993, 549). Before this occurs however, the state must determine exactly how foreign direct investment will be couched into its national development strategy.

2.3 Collusion between States and TNCs

Foreign direct investment from a transnational corporation is attractive to national governments for many reasons. A small state deficient in natural resources and domestic
entrepreneurialism, such as Singapore during the 1960s, turns to TNCs in order to spark economic growth, while maintaining a strong, closely involved state apparatus.

Singapore is not only a highly internationalized economy in terms of its extreme reliance on trade, but it is also exceptionally dependent for its local economic dynamism on foreign direct investment by transnational corporations. At the same time it is equally renowned for the capacity and power of its state bureaucracy (Evans, 1997, 70).

In contrast to portfolio investment, foreign direct investment encompasses longer term commitments, job creation and the establishment of useful infrastructure. Responsibility for each of these positive developments is often claimed by the national government in order to improve its hold on power, improve its image, increase international competitiveness, and harness nationalist fervor, albeit through the involvement of a foreign firm. “It (the state) may collude with domestic and foreign capital (represented by TNCs) to sustain national competitive advantage in the global economy” (Yeung, 1998, 393).

TNCs move toward such a collusive relationship with the state by reaping the benefits of investment incentive packages drawn up by the FDI-hosting national government. Specific examples of investment incentives offered by Indonesia’s government for setting up production facilities in Batam are illustrated in the table below.
### Table 2.2

**Examples of Incentives for TNC’s Investment**

<table>
<thead>
<tr>
<th>Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allowance to establish 100% foreign ownership;</td>
</tr>
<tr>
<td>Exemption from import duty on machine/equipment, spare parts and raw materials for export production purposes;</td>
</tr>
<tr>
<td>Exemption from income tax on imported capital goods and raw materials;</td>
</tr>
<tr>
<td>No Value added tax (VAT) for processing industries for export purposes;</td>
</tr>
<tr>
<td>Double taxation avoidance agreements;</td>
</tr>
<tr>
<td>Streamlined immigration and licensing procedures;</td>
</tr>
<tr>
<td>Long term business licensing procedures, extendable;</td>
</tr>
<tr>
<td>Competitive labor costs, land lease, utilities and other operating costs.</td>
</tr>
</tbody>
</table>

Source: BIDA, 2004

Large TNCs successfully operating in a given country can elevate the reputation of the state as a reliable destination for FDI, likely leading to further injections of capital, increased competitiveness in the global market, industrialization and overall national development. Furthermore, TNCs have the potential to attract ancillary industries, foreign and domestic; both of which can lead to positive economic growth in the hosting country.

#### 2.4 Rivalry between States and TNCs

Considering the positive effects TNCs have on national development, it may seem counterintuitive for the state to rival foreign direct investment, to move away from relationships of collusion with transnational corporations. Reasons for reticence among the state apparatus for tempering FDI inflows do in fact exist. Threatened erosion of state authority, interests in greater domestic participation in production, nationalist fervor, and demands for greater returns via fiscal policy are all examples of reasons for a state to alter its collusive relationship with TNCs. Acting out such objectives moves the relationship
more towards rivalry and jeopardizes the reliability and longevity of the symbiosis between the state and transnational corporations in a given country.

Small and/or burgeoning states are often wary of inviting powerful TNCs to invest within national boundaries. Developing countries with a short list of resources available for economic growth are leery of such resources being taken over by large, profit-oriented TNCs. The transnational corporation may be perceived by the state as a rival to political power, and even come to effectively question the decision making or overall legitimacy of the government. Such concerns are part of the gamble of whether or not to provide incentives to transnational corporations to invest in a given country.

Power relationships are crucial to understanding the shift from collusion toward rivalry. Economic growth through transnational FDI may increase the legitimacy of the state, however it may also have the opposite effect. The penetration of foreign direct investment in a country potentially erodes the power of the state as an institution (Pitelis, 1991). As transnational corporations grow in a country, the bargaining power of the state apparatus declines, and competition for influence emerges. This is particularly salient in developing countries.

Over the past decades, the importance of transnational corporations has increased significantly. “Foreign direct investment has been growing three times as fast as trade, and other sorts of transnational corporate connections … have probably been growing even faster” (Evans, 1997, 65). With TNCs playing a larger and larger role in the market across national boundaries, the power of the state is undermined, and thus its role as an economic actor is marginalized (Evans, 1997).
Hymer (1976) argues that TNC investment contributes to development in the form of job creation and infrastructural strengthening, but the development is uneven. The development path of the country begins to follow the demands of the TNC rather than the objectives of the state. Moreover, the transnational corporation’s bottom line is not rooted in national development, but rather profit maximization and the establishment of efficient production systems (Pitelis, 1991). This process sidelines the state’s authority in many ways, and often the investment attractiveness for a transnational corporation is compromised by retaliatory measures taken by the state. Retaliatory or “protective” measures by the state often embody the very market failures TNCs try to avoid. With national interests ostensibly at the forefront, state mandates may misallocate resources and subvert potentially more efficient market mechanisms.

Rivalries between states and transnational corporations can develop through state intervention in the market. This can take the shape of state-owned enterprise entrance into the market, or forbidding TNC entrance to particular sectors. In an even more dramatic expression of nationalism, the state may nationalize domestic appendages of foreign firms. The state takes such action to reclaim its power position within the country, but doing so creates market failures, negative reputations for a state’s investment attractiveness, and large amounts of uncertainty.

On a more subtle scale, retaliatory measures taken by the state can be divided into two categories; conditions of entry and operation requirements. Upon entry, the state may disallow 100% foreign ownership, instead mandating the formation of partnerships and joint ventures with local capitalists. Secondly, the state can limit the scope of activities TNCs may undertake, by developing a ‘negative list’ of items which may not be
produced by TNCs. Such products are typically disallowed because of security concerns, cultural sensitivities, or the products’ perception as being undesirable in the eyes of the state. Lastly, the state may scale back incentives such as tax holidays and rebates; the very incentives which attracted TNCs to a given region in the first place (Dunning, 1993).

States also shift toward an environment of rivalry with TNCs when they more stringently regulate operation requirements, creating market failures in the calculus of the TNC. The state does this by more intensively regulating the sourcing of raw materials and intermediate goods used in production, or more closely requiring recruitment and training programs to cultivate a well-rounded worker. Furthermore, governments have taken measures to ensure a certain level of research and development takes place within the country’s borders, and involve local talent. Each of these regulations contributes toward building a more formidable and sustainable workforce within the FDI hosting country. It is not, however, necessarily the responsibility of the TNC in the eyes of its management. It is in the enforcement of these regulations, and the subsequent costs attached, that the relationship between the state and transnational corporation shifts from one of collusion to one of rivalry (Dunning, 1993).

The relationship between states and transnational corporations shifts between collusion and rivalry. Attractive investment incentive packages developed by national governments draw foreign direct investment from TNCs, while protective measures enacted by the state to avoid an erosion of power create an environment of rivalry. Batam Island, Indonesia is an exemplary location to analyze the relationship between the state hosting foreign direct investment and transnational corporations relocating production facilities. This thesis will contribute to the literature on the collusion and rivalry between
transnational corporations and the state through case study analysis of firms operating in Batam, Indonesia. Batam is optimal for analyzing state-firm relationships of collusion and rivalry because of the large inflows of FDI in the wake of Singapore’s economic restructuring beginning in the 1970s and more importantly the regionalization schemes espoused by the Singapore state and colluded with by Indonesia’s national government and large transnational corporations during the late 1980s and early 1990s.
Chapter 3

The Singapore State and Regionalization

This chapter details how rapid industrialization and injections of TNC direct investment in Batam were intrinsically linked to economic developments across the border in neighboring Singapore. Since achieving its independence in 1965, government bodies within the Singapore state have welcomed transnational corporations and aggressively created conditions for collusion with foreign capital. During the late 1980s, regionalization, specifically the SIJORI Growth Triangle scheme originating in Singapore and involving the Singapore government, Indonesian government and transnational corporations represented the impetus for producing wealth and state-firm collusion in Batam.

3.1 Singapore’s Economic Restructuring

The island of Singapore achieved self rule from the British in 1958, and briefly joined the Malaysian Federation in 1963. After a tumultuous two year merger, tiny Singapore left the Federation in 1965 and achieved full independence. Recognizing its tiny domestic market after separating from the rest of Malaysia, the Singapore government abandoned import-substitution industrialization (ISI) strategies for an export-oriented industrialization (EOI) approach. In an attempt to remedy a persistently high unemployment rate and jumpstart economic growth, the ruling People’s Action Party
geared economic policies toward creating an environment most competitive and accommodating to international capital.

The government adopted a strategy which aimed to industrialize by attracting export production, internationalized by capital from the core economies of the world in the search for lower-cost production sites. Thus, the government deliberately chose an alliance with foreign capital (Van Grunsven & Van Egeraat, 1999, 147).

From the very beginning of Singapore’s statehood, government leaders encouraged foreign direct investment from corporations with a transnational outlook. The People’s Action Party colluded with incoming foreign capital by passing legislation that tightly regulated labor and rapidly developed reliable infrastructure. If Singapore’s investment attractiveness in the post-independence era was not competitive internationally, the state was determined to create it from the ground up.

The People’s Action Party took the initiative of coordinating financial, infrastructural and transportation advancements in the city-state through government operated statutory boards. In later years, these statutory boards branched off to become powerful and influential government linked corporations (GLCs). Each area critical to the success of the Singapore economy was very closely managed by the state. Such an approach to export-oriented industrialization by the PAP may have been unconventional, but nevertheless yielded successful results (Rodan, 2001). Rather than crowd out transnational corporations by establishing state-owned enterprises, the government’s intention was rather to entice the former with the latter. The PAP succeeded in this endeavor. Only recently independent, Singapore attracted impressive flows of foreign direct investment with its effective, transparent and heavily involved structure of governance.
Foreign direct investment during the 1960s and early 1970s focused specifically on primary commodity production and export. Because of its strategically positioned port and close proximity to Indonesia, Singapore represented a significant portion of world exports in rubber, pepper and spices. Primary commodities dominated Singapore’s exports, but a drive toward increasing manufacturing exports and higher value-added production was on the horizon soon after independence (Huff, 1994).

Low wages, dependable infrastructure and a non-corrupt, trustworthy government set the stage for a glut of foreign direct investment and overall economic growth in Singapore during the late 1970s. “By 1978 jobs were being created at an average rate of about 40,000 per year while the workforce was expanding at an average of about 30,000-32,000 per year” (Rodan, 1985, 15). The Singapore government made up for labor shortages through guest labor programs, importing workers from neighboring Malaysia, but also India, Bangladesh, Sri Lanka, Thailand and the Philippines. The PAP realized early on that importing labor was not a viable long term strategy if upgrading the workforce’s skills and education was the objective. Nevertheless, guest labor allowances remained in place to maintain high levels of FDI inflows from transnational corporations seeking secure, low-wage labor (Rodan, 1985).

The composition of FDI moving into Singapore changed during the 1970s. Primary goods began to be replaced by manufactured goods, with at least some value added in Singapore before re-export to the world market. Industrial estates managed by state-owned enterprises such as Jurong Town Corporation created reliable and affordable facilities for TNCs looking to relocate their manufacturing facilities. Based on the success of Jurong Town Corporation, developers used the industrial estate model of this
period when developing industrial estates in underdeveloped Batam fifteen years after the value added manufacturing sector grew significantly in Singapore.

In Singapore’s trade, 1973 was the first year when direct manufactured exports – goods with some part of their value added through manufacture in Singapore – exceeded primary commodity exports excluding petroleum. During the 1970s and 1980s direct manufactured exports accounted for most of Singapore’s export of manufactures. (Huff, 1994, 312).

The reliability and affordability of labor in Singapore made it a highly attractive destination for the manufacture of both electronic components and finished electronic products, which came to represent a large portion of the manufacturing industry. Seeking lower labor costs for their offshore production, transnational corporations producing semiconductors and other electronic components moved to Singapore during the 1970s. Semiconductor production by this time was a largely labor intensive endeavor, and wages in Singapore were lower than similar newly-industrialized country (NIC) markets with comparable infrastructure, such as Taiwan, South Korea and Hong Kong. By the early 1970s, many American and European offshore semiconductor assembly facilities relocated to Singapore (Huff, 1994).

3.2 The Corrective Wage Policy

By 1979, the Singapore government, confident with the flow of foreign direct investment into the city-state, implemented aggressive policies toward shedding labor intensive industries in favor of higher value added projects. Various tax incentives were offered to TNCs in Singapore that increased research and development and made efforts to innovate productivity. But the factor which most dramatically rocked the labor intensive production landscape in Singapore during the 1980s, and subsequently set into
motion regionalization collusion among TNCs and the state was what came to be known
as the ‘corrective wage policy’. This policy increased Singapore’s pay schedules by 16%
to 20%, effectively shocking labor intensive production costs out of competitiveness

The idea behind ‘correcting’ wages was that by dramatically raising formerly held
down wages in Singapore, industries would face soaring labor costs and be forced to
innovate and upgrade, since labor intensive industries paying increasing wages in
Singapore would lose their competitive edge internationally. The ‘correction’ was aimed
at pressuring producers to upgrade the type of goods produced to be concomitant to the
new wage levels. In 1979 the National Wages Council (NWC) revealed their
recommendations. “These included a basic monthly pay increase of $32 for all workers
plus an additional 7 percent of the existing worker’s wage” (Rodan, 1985, 18). The flat
increase of USD 32 was specifically aimed at labor intensive industries. After all, those
industries paying the lowest wages would face the highest percentage hikes in labor costs.

The ‘upgrade or evacuate’ message espoused by the National Wages Council and
condoned by the PAP was received with great shock by employers in Singapore. TNC
managers recommended alternatives to the drastic increase in wages, such as curtailing
guest labor inflows to more accurately depict the situation of labor scarcity in Singapore.
These requests were roundly rejected as too gradual. Instead, continued hikes in wages
were laid out by the NWC in 1980. The PAP clearly sought to capitalize on NWC action
in order to spark a ‘second industrial revolution’ and renovate Singapore of its traditional,
labor intensive manufacturing sector.
It was recommended in 1980 guidelines by the NWC that a monthly base pay rise of $33 plus a 7.5 percent increase on the existing wage be granted for ‘average’ performers and a further 3 percent of the group monthly wage bill for ‘above average’ performers (Rodan, 1985, 19).

Similar hikes in 1981 under the mandates of the NWC increased wages without an equivalent rise in productivity during the early 1980s. In fact, between 1979 and 1984 labor costs increased by just over 10%, while growth in Singapore’s productivity increased by only 4.4% over the same period of time (Low, 1998, 45).

3.3 Workforce Policies

Climbing labor costs in Singapore were coupled with programs to improve the skills of the labor force in order to prepare for the growing ‘brain services’, another term for the knowledge based economy. Built into the rising labor costs were levies to encourage skill development among laborers, discourage incoming foreign workers, and promote automation and mechanization to improve efficiency and productivity (Low, 1998).

No longer advertising itself to the global marketplace as a cheap, secure, labor intensive locale, the education and skill levels of the Singapore workforce improved markedly during the 1980s. Pressured by labor scarcity and eroding comparative advantage in the face of low-cost competitors around the world, the PAP encouraged increased education, efficiency, and technical capabilities among its workers. The qualitative improvements included “an extensive on-going programme of human resource development through both formal education and on-the-job training” (Low, 1998, 46). Financial and business services are two prime examples of the ‘brain services’ the government envisioned as integral to the new knowledge based economy. It was critical
for this sector to grow, and take in workers from the declining labor intensive manufacturing sector.

After 1978 financial and business services emerged as an engine of growth, and over the next 12 years were the fastest-growing sector, with annual average real growth of 10.6%, compared to 7.5% for the economy as a whole. By 1990 financial and business services provided 26.2% of GDP, or almost as much as manufacturing… (Huff, 1994, 305).

As the sector of ‘brain services’ constituted more and more of Singapore’s GDP over time, educational opportunities for the population increased as well. Singapore’s labor force grasped these opportunities, as evidenced by the dramatic rise in university students and workers with university degrees. Between 1980 and 1989 the percentage of Singapore’s workforce with a university education nearly doubled from 3.6% to 6.1% (Lee, 1992, 32). Nanyang Technological University was established in 1981, centering its curriculum on disciplines directly relevant to growing industries, specifically computer technology. Enrollment in universities between 1980 and 1990 also rose significantly, more than doubling from 9,200 to 24,307 (Lee, 1992, 35). By the early 1990s Singapore had developed a reputation as the hub for regional R&D and management functions (Yeung, 2000).

An increasingly remunerated and higher educated workforce in Singapore created pressure for labor intensive manufacturing firms to upgrade or relocate. Lacking a hinterland where land and labor would be cheaper, the Singapore government was challenged to keep large transnational firms ‘in the neighborhood’. The government’s reticence to simply cut companies loose surrounded the possible loss of the minority of service jobs connected to those very industries; positions in engineering, marketing, research and development, etc. The objective was to develop a program which would shed
labor intensive manufacturing from the city-state’s economy, while keeping the higher value added jobs created by the TNC regional headquartering in Singapore.

### 3.4 The Singapore Government’s Regionalization Scheme

In an effort to prevent high skilled jobs in engineering, research and development, and marketing from leaving Singapore, the government unveiled a regionalization scheme to overlap its housecleaning policies toward labor intensive industries. Regionalization would relocate labor intensive manufacturing facilities throughout Asia, with particular emphasis on neighboring Malaysia and Indonesia. Meanwhile, the state would implore TNCs to retain regional headquarter offices in Singapore. By the late 1980s, the SIJORI Growth Triangle was the cynosure of the regionalization plan espoused by the PAP leadership. The scheme was determined to be a solution to the demands of Singapore’s contemporary economy as well as those of TNCs seeking low labor costs in a reliable environment. The close involvement of the Singapore state and GLCs within the walls of well developed industrial parks provided comfort for TNC managers uncertain of shifting production to unfamiliar islands in Indonesia such as Batam; islands with nearly no reputation in Southeast Asia’s investment community. With close Singapore government supervision, many firms employed the Growth Triangle strategy beginning in 1990, dividing their operations across countries. “Most firms surveyed to date have moved part of their production to Johore and Batam, but left command/control functions in Singapore”. (Macleod & McGee, 1996, 440). While the regionalization program extended investment beyond its borders, the Singapore national government retained a large role in formulating the path of investment. Government bodies such as the Singapore Economic Development Board (SEDB), Ministry of Trade and Industry (MTI) and large
government-linked corporations (GLCs), paved the way for transnational corporations to make the leap across international borders and relocate in places such as Batam Island, Indonesia.

Beginning in the mid-1980s, Singapore’s government moved toward regionalization for three primary reasons. Firstly, regionalization fit well within the ‘second industrial revolution’ framework, and labor intensive facilities could be transplanted while staying ‘in the neighborhood’, thus retaining high skill jobs in engineering and management in the city-state. Moreover, regionalizing labor intensive operations created vacancies for new, higher value added industries in Singapore. Secondly, regionalization offered up the possibility to strengthen diplomatic ties with neighboring countries such as Malaysia and Indonesia. Finally, the Singapore national government sought to expand and improve the international competitiveness of its government-linked corporations (GLCs). GLCs are the largest and most formidable among Singapore-headquartered firms, yet during the late 1980s and early 1990s still lacked significant exposure to international competition. Officially launched in 1993, the government used large resources of capital and close connections with domestically headquartered government-linked corporations as vehicles to launch the regionalization program. This external wing of the Singapore economy irreversibly changed the economic landscape of foreign territory, such as that of Batam, Indonesia.

Singapore’s lack of hinterland and climbing land and labor costs left regionalization planners seeking out inexpensive, underdeveloped destinations such as Batam Island, Indonesia for the relocation of labor intensive industries. The objectives of the Singapore government during the 1980s and 1990s were to negotiate the use of, or in
the case of Batam, construct from the ground up, territories external to the city-state’s boundaries for the purposes of developing viable industrial estates for labor intensive, export-oriented manufacturing. The goal was to slash land and labor costs while simultaneously creating the dependable and reputable operational environment found in Singapore for the past three decades. Johor and Batam were both in close proximity to Singapore, and both offered labor costs well below those found in the city-state.

The regionalization strategy most pertinent for purposes of industrialization in Batam was the “regional industrial park program” (Pereira, 2001). Locations in Southeast Asia were selected for greenfield construction of self-sufficient industrial parks to service relocating TNCs. Destinations were strategically selected by the Singapore Economic Development Board and Ministry of Trade and Industry. Industrial estates were then planned, built and managed by Singapore GLCs, usually in collaboration with a local firm. Among the sites chosen for the regional industrial park program were the territories which would encapsulate the SIJORI Growth Triangle. Thus, the path of foreign direct investment and later entrepreneurial capital from Singapore to Batam was decidedly state-driven from the very beginning. Singapore’s Economic Development Board (SEDB) negotiated collusive investment incentive packages with the receiving national government, in this case Indonesia, for relocating TNCs. Buttressing state action, government linked corporations played a crucial role, planning self-sufficient industrial estates for transnational firms to transplant their production from Singapore to Batam as seamlessly as possible.
As their name suggests, government linked corporations may be publicly listed and managed separately from the state, but remain closely tied to the economic vision designed and led by the Singapore national government. Today’s GLCs began as statutory boards in the 1960s, initiated by the government to improve the infrastructure of the city-state and lure foreign direct investment to Singapore. State owned enterprises (SOEs) specializing in the development of roads, electricity, transport and communication services were nurtured by the government, and only began privatizing during the late 1980s. While many GLCs are publicly listed and steps toward divestment have been in motion for nearly twenty years, the Singapore government maintains a significant interest in the shareholding and decision-making among these outfits (Yeung, 2004). Temasek Holdings, the investment arm of the Singapore government manages the GLC shareholdings, some examples of which are available in the table on the following page.

### 3.5 Singapore’s Government Linked Corporations (GLCs)
Table 3.1

Government Linked Corporations and Effective Shareholdings (% share)

<table>
<thead>
<tr>
<th>Infrastructure, Engineering and Technology</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Keppel Corp</td>
<td>32%</td>
</tr>
<tr>
<td>SembCorp Industries</td>
<td>51%</td>
</tr>
<tr>
<td>ST Engineering</td>
<td>55%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transportation and Logistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore Airlines</td>
<td>57%</td>
</tr>
<tr>
<td>Neptune Orient Lines</td>
<td>67%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Telecommunications and Media</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SingTel</td>
<td>63%</td>
</tr>
<tr>
<td>MediaCorp</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Services</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Bank of Singapore</td>
<td>28%</td>
</tr>
<tr>
<td>Bank Danamon</td>
<td>56%</td>
</tr>
</tbody>
</table>

Source: Temasek Holdings, 2006

The role of GLCs and the public sector remain very important to the well-being of the city-state, and have played key roles in executing the establishment of Singapore’s ‘external wing’. At the end of the end of the 1990s, the Ministry of Finance reported that the public sector and GLCs combined for approximately 60% of the country’s GDP (Yeung, 2004, 46). In spite of the move toward divestment and privatization, GLCs remain aligned with objectives of the Singapore government, specifically in the regionalization programs of the 1990s.

The largest and most competitive outfits in the country, GLCs paved the way for the state-directed outward expansion of transnational corporations. Regions in Indonesia and Malaysia were projected to be areas of great growth potential, and industrial parks were planned for the relocation of Singapore firms to secure, profitable destinations.
later SembCorp are examples of government linked corporations which laid the physical groundwork for what would become Growth Triangle reality. Along with the Singapore Economic Development Board, GLCs developed and managed industrial estates where firms extending out from Singapore would relocate. The assurances from the EDB and GLCs provided adequate impetus for many TNCs, and later Singapore SMEs, to implement the regionalization strategy; physically separating command/control centers from production facilities, and subsequently strengthening economic interactions between the Singapore-Riau side of the SIJORI Growth Triangle (Sree & Lee, 1991).
Chapter 4
Batam’s Economic Development

This chapter chronicles the industrialization of Batam as part of a newly developing export-oriented industrialization (EOI) platform supported by the government in Indonesia. The chapter addresses changing approaches to industrialization by the New Order government, then narrows in on how such strategies imposed by the Suharto government impacted economic development in Batam. Emphasis is placed on how the Singapore national government, Indonesian national government and transnational corporations collusively erected the necessary infrastructure to make the Singapore-Riau side of the SIJORI Growth Triangle a reality.

Liberalization of Indonesia’s economy during the 1980s was a response to the overall downturn of the global economy, displacing ten years of heavy capital investment whereby oil revenues were used for national industry development. As Parsonage notes, “the divisive nature of ASEAN economic nationalism mellowed after an economic recession in the early and mid-1980s, linked to a fall in commodity prices and international economic downturn, demonstrated the region’s vulnerability” (Parsonage, 1997, 252). Rather than face the potential of slowed growth and overall economic malaise by forging ahead with unaltered import substitution industrialization, Indonesia turned toward economic liberalization to accelerate industrialization by way of foreign direct investment (Parsonage, 1997). The Singapore government’s vision of Batam as a labor intensive, export-oriented manufacturing center in the 1980s and 1990s aligned closely with the direction of Indonesia’s economy. Jakarta’s relaxation of regulatory mechanisms
countrywide, but specifically in Batam, coupled with export-oriented industrial park
development during the 1980s and early 1990s signified the height of collusion between
relocating transnational firms and national governments in Singapore and Indonesia.

4.1 The Shift from ISI to EOI

The beginning of President Suharto’s New Order government in the 1960s was
marked by a great opening of the economy. Such action was a sharp departure from the
heavily isolated leadership he inherited from his predecessor, President Sukarno.
Appeasing aid agencies and foreign investors supportive of his government, Suharto began
implementing regulatory mechanisms in accordance with those sought by foreign capital
interests early in his leadership. Indonesia’s economy from the mid-1960s to mid-1970s
retreated from both state capitalism and economic nationalism. The economic vision of the
New Order national government however, shifted gears by the middle of the 1970s. A
dramatic increase in world oil prices and instant wealth created for oil producing nations
such as Indonesia brought about the return, albeit temporarily, of state capitalism and
economic nationalism across the archipelago.

The New Order government spent the second half of the 1970s managing massive
revenue inflows from the rise in world oil prices. President Suharto and his American
trained economic advisors spent the decade between 1975 and 1985 allocating windfalls of
newfound oil wealth toward large scale, nationalistic industrialization. Massive oil
revenues facilitated the initiation of numerous projects within the country. State-owned
corporations led the industrialization charge, cooperating with private firms to establish
sites for home production of formerly imported goods such as beverages, cement, tires,
textiles and glass (Robison, 1990). President Suharto’s economic advisors supported the
nationalistic characteristics of import-substitution industrialization (ISI), concluding that the period of oil wealth largesse must be capitalized upon in order to develop a competent industrial baseline in the country and eliminate reliance on external aid (Riesenhuber, 2001).

Rather than expanding trade relationships with the rest of the world, the Indonesian economy turned inward during this period, promoting import-substitution industrialization. In order to limit competition from foreign capital, which could potentially ‘crowd out’ burgeoning national industries, barriers were established restricting TNC investment. Manufacturing licensing procedures for foreign investment were tightened, as was the requirement pertaining to compulsory divestment of foreign investment to local capitalists. Collusion between the Indonesian state and transnational corporations gave way to rivalry during this period of economic nationalism. Such unwelcoming policies toward FDI were possible, largely because of the government’s dependence on the enormity of incoming oil wealth. “In the first years of the 1980s, gas and oil sales…brought in 70 per cent of the regime’s total revenue” (Berger, 1997, 178). Because Indonesia was the only OPEC member in Southeast Asia, the quadrupling of world oil prices in 1973 permitted ISI to go on much longer when compared to other nations in the region such as Thailand, which took on a more export-oriented approach by the 1960s (Kuhonta, 2003).

Indonesia’s efforts toward self-sufficiency and rapid development through oil-revenue fueled ISI spanned far and wide. William Liddle writes that capital allocation toward education, agriculture, communications and transportation were the most significant. Agricultural inputs were subsidized, and large amounts of state investment
were directed toward such capital-intensive projects as oil refineries, liquefied natural gas plants and even the development of an aircraft industry (Liddle, 1991).

The program of ISI was unsustainable however, given its dependence on large injections of capital from the temporary hike in the price of crude. Sure enough, oil earnings in Indonesia dropped from USD 16.4 billion to USD 12.2 billion between 1982 and 1983. In early 1986 OPEC pricing policies led to a precipitous decline in oil prices. Prices fell from USD 28 per barrel to as low as USD 12 per barrel. The potentially ruinous ramifications of such a decline in oil prices for Indonesia were tempered by rising non-oil exports in 1983 and 1984 (Robison, 1990, 117). While much of the non-oil exports were accounted for by liquefied natural gas, noticeable plywood and textile production marked the beginning of an export focused manufacturing sector in Indonesia (Robison, 1990).

Recognizing such a shift, the Suharto government took steps to maintain strong growth rates in the area of non-oil exports. Doing so in the face of diminishing oil wealth required encouraging higher rates of foreign direct investment in Indonesia in the area of manufacturing. In order to successfully open Indonesia up to export-oriented industrialization, barriers to trade and investment had to be lifted. Regulatory reforms were enacted in two phases. First in 1983, then again in 1986 and 1987, tariffs and other duties were lowered, regulations were relaxed, and licensing procedures were streamlined (Yeoh, Theng, Goh & Richardson, 1992, 11).

Indonesia’s government did not maximize Batam’s advantageous geographical proximity to Southeast Asia’s economic powerhouse Singapore until the late 1980s. Separated by only twenty kilometers, Batam’s current role as a production center for transnational corporations began when it was determined to be more beneficial as a
relocation center for firms implementing Singapore’s regionalization scheme than as a site for oil exploration and processing. Decisions pertaining to the utility of Batam closely followed the ISI to EOI transition by the mid-1980s. The regionalization, relocation scheme espoused by Singapore’s national government was supported and colluded by Indonesia’s New Order government under President Suharto, although it was not until the late 1980s that industrialization in Batam became substantial. What for generations was a quiet, sparsely populated fishing island soon became a key component in a regionalization production network invested in by transnational corporations and developed by a mélange of private and public partnerships from Singapore and Indonesia.

**4.2 History of Economic Development in Batam**

During the early 1970s the island of Batam was inhabited by approximately 7,000 residents, predominately fishermen (MacLeod & McGee, 1996, 428). While proposals for Batam’s development were bandied about near the end of Guided Democracy under President Sukarno in the 1960s, little action was taken. Objectives for the future use of Batam and its contribution to the Indonesian economy as a whole were an ongoing debate; its future as a site for export-oriented industrialization was not cemented until the late 1980s.

Under the leadership of President Suharto, the Riau Islands were slated to be a logistical location for oil and gas field operations in the 1960s and 1970s. The quadrupling of oil prices by OPEC in 1973 motivated the New Order government to take immediate action in exploring oil-related opportunities in and around Batam Island. During the mid-1970s Pertamina, the state-owned oil company commissioned a joint study conducted by the United States and Japan on the utility of the Riau Islands as a site for oil exploration.
and processing activities (Yeoh et. al., 1992, 14). Presidential Decree Number 43, issued in
1973 turned over the authority of the Riau Islands to the Batam Industrial Development
Authority (BIDA) (Regnier, 1987, 74).

BIDA was established with a very simple assignment. “To oversee the
establishment of Batam as the supply centre for the booming oil and gas industry in
Indonesia and, indeed, the ASEAN region as a whole” (Phelps, 2004, 210). Since its
inception, BIDA has taken on the role of local authority, a more efficient alternative to
central, Jakarta-based decision-making. While BIDA remains at the center of Batam’s
development today, the initial goal of becoming a booming center for the oil and gas
industry was never achieved. In 1979, Batam’s infrastructure remained seriously
underdeveloped, and the island’s population numbered less than 20,000 (Grundy-Warr,
Peachey & Perry, 1999, 309). In fact, when the 1970s came to a close, the American
company PT McDermott was the only significant overseas investor with operations set up
in Batam (Phelps, 2004).

It became clear during the 1970s that centering Batam’s development around the
energy industry did not take full advantage of the island’s favorable geographic location,
particularly as neighboring Singapore was rapidly establishing itself as a center for
transnational corporation foreign direct investment and offshore manufacturing in
Southeast Asia.

Further studies were carried out which led to a comprehensive
master plan to develop Batam into an industrial, commercial and
tourist centre as well as to expand its traditional role as a

The studies’ recommendations did not go unrecognized by the Suharto
government. In 1978, Presidential Decree Number 45 was issued from Jakarta. The island
was designated a bonded zone and export-oriented activities were encouraged, shifting the focus from natural resource processing to establishing labor intensive manufacturing operations. While Batam did not grow much during the 1970s, the establishment of BIDA in 1973 under the leadership of Dr. B.J. Habibie, former Minister of Research and Technology and future president of Indonesia, marked a shift in the trajectory of Batam’s industrialization. “Habibie managed to retain his control of BIDA whilst building up an influential bureaucratic and commercial industrial power base, effectively operating as a de facto Minister of Industry” (Grundy-Warr et al., 1999, 309). With the BIDA chairmanship held by a well-connected figure in Dr. Habibie and a presidential decree designating the island as a bonded zone, a foundation was set for Batam to function collusively with TNCs and the Singapore state, thus avoiding many of the potential rivalries of an inefficient, far away Jakarta.

By the beginning of the 1980s, projections for Batam’s future were in manufacturing, and the island’s success was inextricably linked to a collusive relationship with its neighbor; the rapidly growing and economically evolving city-state of Singapore. In order to blend with the requirements of Singapore’s regionalization plan, improvements in government regulations, infrastructure, and supplies of labor all had to be achieved. Batam’s rapid industrialization and accumulation of wealth via FDI was contingent upon the collaboration of many elements. The New Order government in Jakarta, local BIDA administration, TNCs, private Indonesian firms and Singapore government bodies such as the Economic Development Board and government linked corporations all had to cooperate toward a common goal of how Batam was to be developed to serve each interest within the general SIJORI Growth Triangle framework.
Regulatory concessions and industrial park development were two key issues which had to be resolved in order for the numerous parties to reach a sufficient level of collusion. Transnational corporations were hesitant to commit to greenfield investment in Indonesia unless there was a consensus on the investment incentive packages offered in Batam. Fortunately for all vested interests in the first phase of industrialization in the 1990s, economic liberalization and industrial park development unfolded quickly and effectively. Batam became a viable relocation environment for TNCs in Singapore taking part in the regionalization program.

4.3 Liberalization in Batam

In order to capitalize most intensely on its close proximity to Singapore, special legislation was enacted to encourage foreign direct investment in Batam. Reducing divestment requirements were some of the most important steps toward liberalization. Showing a willingness to cooperate with TNC interests, after 1992 the Indonesian state permitted 100% foreign ownership with no requirement for divestment among export-oriented industries within the Batam Economic Zone; a region encompassing Batam and five nearby islands. Such concessions were unavailable elsewhere in Indonesia (Grundy-Warr et al., 1999). In fact, in other regions in Indonesia steep divestment requirements persisted; some legislation required more than half ownership be turned over to domestic interests within fifteen years (Pangetsu, 1991, 78).

The Indonesian government also enacted liberalization policies to reduce import duties and streamline licensing procedures. Attempting to conduct as much licensing ‘under one roof’, efforts were made to implement all procedures in Batam rather than relaying back and forth to Jakarta. A Board of Investment office was opened in Batam to
facilitate this streamlined process. The more streamlined the process and the more
procedures that could be effectively executed in Batam, the greater amount of TNC
managerial confidence was established. BIDA representatives did their best to harness
such confidence, as it created collusion and stood to increase the path of investment
moving to Batam from Singapore.

Other policy changes introduced were first, that only imported raw materials used in products processed on Batam and exported to the rest of Indonesia would be subject to duty, not the finished product. Second, to facilitate investment applications, the regional Board of Investment office has also placed some of its staff in Batam and the processing of applications can be done through Batam without having to go to Jakarta (Pangetsu, 1991, 79).

The Suharto leadership aimed at creating a collusive environment in Batam and the encompassing Riau Islands for establishing dependable commitments from TNCs and the regionalizing Singapore government. From each entity’s viewpoint, Batam was a strategic point of entry for transnational corporation foreign direct investment. One of the main inhibitors to investing quickly in Batam was the lack of adequate infrastructure. As relaxed regulatory mechanisms for Batam became embedded in Indonesian law, and negotiations were underway for TNC relocation, the “regional industrial park program” arm of Singapore’s regionalization strategy was implemented to overcome the obstacle of inadequate infrastructure for export-oriented industrialization in Batam (Pereira, 2001).

4.4 Industrial Park Development in Batam

A hallmark of Indonesia’s economic liberalization campaign during the 1980s was the cross-border partnerships formed to facilitate Batam’s rapid industrialization. Large private firms close to Suharto’s New Order such as the Salim Group played an integral
role in developing industrial estates and recruiting workers from more populated islands in
Indonesia such as Java, Sumatra and Kalimantan. Perhaps more critical to the
industrialization of Batam however, was the role of Singapore’s government-linked
corporations (GLCs). These outfits colluded with national governments in Singapore and
Indonesia to develop industrial estates for a wide range of light, medium and heavy
industries. Singapore GLC financial capital and expertise was imperative, given Batam’s
complete lack of adequate infrastructure as late as the 1980s. Public and private capital in
Singapore and Indonesia shared mutual goals, cooperating to erect large, walled-in, self-
sufficient industrial estates intended to relocate labor intensive operations from Singapore.
The validity of the Growth Triangle’s potential became plausible as the Indonesian
government made the necessary adjustments to create an attractive environment for
foreign firms to undertake protracted, greenfield investment on the island.

Since 1990, twenty industrial estates have been built across Batam. Varying in
size and sophistication, each estate offers over 700 transnational corporations numerous
packages for relocating production facilities. Industrial estates either lease land that is
ready-to-build, or rent out existing buildings. Some parks include permit processing and
worker recruitment in-house, and nearly all industrial estates provide more reliable and
affordable necessities such as water, security, and power, than that which is available
outside Batam’s estate walls. Furthermore, industrial parks entice TNCs to relocate by
offering various investment incentives, which during the first phase of Batam’s
industrialization were clearly drawn up by the local and national government in Indonesia
(BIDA, 2002). Unfortunately, during the second phase of industrialization, the increased
role of Jakarta in Batam’s investment affairs established an environment of rivalry
stemming from uncertainty pertaining to investment incentives offered to relocating TNCs, as listed below.

Table 4.1

Batam’s Basic Investment Incentives

| Exemption from import/export duty on machine/equipment, spare parts, and raw material for export production purposes; |
| Exemption from income tax on imported capital goods and raw materials; |
| No VAT for all processing industry for export purposes that are directly related to production; |
| Double Taxation Avoidance Agreement with 52 countries. |

Source: BIDA, 2004

4.5 Batamindo Industrial Park

Among the twenty industrial estates now standing in Batam, the prime example of state-state-firm collusion during Batam’s first phase of industrialization is that of Batamindo Industrial Park (BIP). Batamindo was the first, and is to date the largest and most sophisticated industrial estate in Batam. The building of Batamindo and formation of its management structure exemplifies Batam’s development as an external wing for Singapore’s regionalizing economy. The evolution of Batamindo also exemplifies collusion between private and public elements in Batam, as well as those between Singapore and Indonesia at the government level during the first phase of Batam’s industrialization.

The Batamindo Industrial Park project partnered two Singapore GLCs and one private Indonesian company, considered at the time to be the country’s largest conglomerate. In 1990, GLCs Singapore Technologies Industrial Corporation and
Singapore Jurong Environmental Engineering forged an agreement with Indonesia’s Salim Group to construct a 500-hectare industrial park specifically targeting TNCs involved in labor intensive, light, medium and heavy manufacturing. In building BIP, the Salim Group and two GLCs aimed to create a reliable manufacturing zone emulating industrial parks successfully erected in Singapore by the Jurong Town Corporation. “Efforts to market the industrial park will be made to encourage Singapore-based multi-national companies to locate some of their manufacturing operations in the park” (“Singapore, Indonesia Sign,” 1990). The GLC/Salim Group partnership thrived under the ardent support of governments in Jakarta and Singapore to quickly erect facilities sufficient for TNC relocation from the city-state.

The first row of factories was built inside Batamindo within seven months of the agreement between Salim Group, Singapore Technologies Industrial Corporation, and Singapore Jurong Environmental Engineering. To mark the occasion of their completion, agreements of economic cooperation were signed between the governments of Singapore and Indonesia. These were the first and only agreements relating to SIJORI Growth Triangle industrialization signed by participant government leaders. In August 1990, two agreements dedicating each party to the promotion of trade and investment were signed by Singapore Trade and Industry Minister Lee Hsien Loong and Indonesian Coordinating Minister for Finance, Industry and Development Supervision Radius Prawiro. While the tenets of the agreement were ambitious yet vague, the importance of the event resides in those who were in attendance for the agreement’s signing. To mark the progress made in Batamindo Industrial Park was Singapore Prime Minister Lee Kwan Yew, Singapore Deputy Prime Minister Goh Chok Tong and Indonesia’s President Suharto. The fact that
both heads of state were on hand to witness the cementing of economic cooperation in Batam signifies the importance of BIP to both governments (“Singapore, Indonesia Sign” 1990).

Indonesia’s Salim Group and the two GLCs collectively formed PT Batamindo Investment Corporation. The GLC elements of Batamindo Investment Corporation were able to secure loans in Singapore at friendly rates to finance the S$600 million cost of erecting BIP. The Monetary Authority of Singapore (MAS) was highly conciliatory to the GLC request. Loans for the Batamindo project were classified as offshore rather than domestic. This allowed the amount of such a loan to exceed the typical cap of S$70 million. The allowances made for Batamindo’s financing were emblematic of the Singapore governments’ partnering with GLCs and private firms in Indonesia to make regionalization a reality. After approving the loans for PT Batamindo Investment Corporation, the MAS acknowledged that such concessions would continue to be permitted in the future if the financing were for economic activities that benefited the country as a whole (“MAS further relaxes” 1993).

The beginning of the 1990s was one of maximum collusion between states and TNCs in Batam. Economic engineers inside Singapore’s government were encouraging close to 20% of the city-state’s over 3,000 TNCs to relocate labor intensive operations to either Johor Baru, Malaysia or Batam, Indonesia in order to make the SIJORI Growth Triangle concept a reality. Before construction of Batamindo Industrial Park was even completed, TNCs were signing on for relocation. With only one row of factories completed in October 1990, 28 transnational corporations had already negotiated contracts to set up production inside Batamindo. TNCs committing to relocation from
Singapore were by far the largest sources of foreign investment from the beginning, with over USD 120 million in investments in the first year of Batamindo Industrial Park’s existence in Batam (Vatikiotis, 1991).

Batamindo continued to grow throughout the 1990s, with industrial space and the infrastructure capacity to host up to 100 tenants. World-renowned TNCs such as Seagate, AT&T and Thomson established themselves inside the park. Because GLCs followed a Singapore industrial estate model closely during construction, the interior of Batamindo Industrial Park resembled Singapore much more than it did Batam. The park’s attractiveness was largely attributed to its self-sufficiency.

BIP… for example, has its own power supply, water treatment plant, sewerage system, telecommunications facilities, commercial centre with a market, shops, a bank, restaurants, supermarkets, a mosque and a 24-hour medical center. Factories of various sizes are built in advance for rent or purchase. BIP also has its own shipping and warehouse provider, offering freight transportation to and from Singapore (Yeoh, 2003, 5).

The success of BIP established a path of outward investment from Singapore to Batam, and prompted the construction of nineteen more industrial estates of varying size and tenant capacity across the island. Industrial estate development signified the need for laborers in construction, manufacturing and ancillary industries. As the figure on the following page reveals, Batam’s population grew significantly during the 1990s, even during periods of diminishing foreign direct investment and increased state-firm rivalry, as was the case at the end of the decade.
Batamindo Industrial Park remains the largest and most sophisticated industrial estate in Batam. Government statistics assert the entire island employs 224,332 workers. Batamindo Industrial Park alone employs approximately 66,000 workers, or about 30% of the island’s workforce. Never able to reach its goal of 100 tenants, the total amount of TNCs in BIP fell from 88 in 2002 to 83 in 2005. “If we are at 80% capacity or above we are happy. With fewer companies, we can serve each of them better” (C. Lee, personal interview, July 22, 2005). Whether or not BIP hits its capacity of 100 tenants, it is far and away the largest and most sophisticated industrial estate in Batam.
4.6  Batam in the Growth Triangle

A collusive state-firm relationship of mutual benefit persisted in Batam between TNCs, the Singapore government and the Indonesian government throughout much of the 1990s. Batam’s investment incentive packages were articulated with clarity from Jakarta; then largely left to local authorities in Batam such as the Batam Industrial Development Authority to manage. Moreover, the transparency and reliability of the Singapore government, the close involvement of the Singapore Economic Development Board and GLCs effectively created a well-worn path of TNC relocation from the city-state to Batam in order to make regionalization a reality. Once relocated, TNCs were able to start producing without delay, thanks to the construction of efficient and reliable industrial estates such as Batamindo Industrial Park. On the eve of the Asian Financial Crisis, exports from Batam had grown steadily, as expressed in the figure below.

![Figure 4.2: Exports from Batam](https://example.com/figure4.2.png)

Source: BIDA, 2002
The Singapore-Riau link of the SIJORI Growth Triangle concept was not a reality during the 1980s. Batam was sparsely populated and in no way capable of satisfying the infrastructural demands of an export-oriented transnational corporation. Only through state-firm collusion in both Singapore and Indonesia at the end of the 1980s was the reality of the Growth Triangle link between Singapore and Batam able to become realized. The construction of large scale industrial estates such as Batamindo Industrial Park permitted foreign direct investment flows to move steadily from Singapore to Batam. But the collusive relations between these two points on the Growth Triangle did not continue into the twenty-first century. The relationship between transnational corporations and the state in Batam, vacillating between collusion and rivalry is better understood within the context of the SIJORI Growth Triangle.
Chapter 5

Collusion and Rivalry in the SIJORI Growth Triangle

Batam Island, Indonesia is an excellent setting to examine the relationship between transnational corporations and governments playing host to foreign direct investment. In this chapter, after a brief introduction to the concept of the SIJORI Growth Triangle, I divide Batam's collusion-rivalry relationship between transnational corporations and the state into two phases. The first phase was one of noticeable collusion, navigated largely by government agents in Singapore cooperating with transnational corporations to enact the widely promoted national development strategy of regionalization. Singapore’s regionalization complemented the drive by President Suharto to lure export industries into Indonesia, efforts which began during the mid-1980s. Highlights of the first phase include the 1989 announcement of the SIJORI Growth Triangle and subsequent ground-up industrialization in Batam. Collusion between transnational corporations and the state in Batam peaked with the 1997 Asian Financial Crisis.

The second phase, one marked more by rivalry than collusion grew out of the Asian Financial Crisis, the movement away from regionalization by the Singapore government, and democratization processes in Indonesia. Today’s TNC-state relationship in Batam continues to be one that smacks more of rivalry than collusion. This rivalry can be largely attributed to confusion and inaction on the part of the Indonesian central government, creating an environment of uncertainty specifically around the issue of Batam as a free trade zone. Uncertainty, anathema to foreign direct investment,
negatively affects investment potential and inhibits TNC-state relationships in Batam from shifting back toward collusion. The shift from collusion to rivalry and the two phases of TNC-state relations along the Singapore-Riau side of the Singapore-Johor-Riau (SIJORI) Growth Triangle will be addressed in the following sections.

5.1 SIJORI Growth Triangle

The concept of the Singapore-Johor-Riau (SIJORI) Growth Triangle went public in Singapore during an era of economic restructuring and regionalization. In 1989, Deputy Prime Minister of Singapore Goh Chok Tong for the first time publicly proclaimed the positive economic and political ramifications of forming a “triangle of growth”. Deputy Prime Minister Goh encouraged the collaboration of comparative advantages specific to Singapore, Johor, Malaysia and Batam, Indonesia (Sree, 1998). While no trilateral agreement was ever signed, the Growth Triangle idea was endorsed by both Malaysia’s Prime Minister Mahathir Mohammad and Indonesia’s President Suharto (Ahmad, 1993). The SIJORI Growth Triangle title presupposes trilateral cooperation; however it was apparent from the beginning that flows of foreign direct investment became entrenched on only two sides of the triangle. Noticeable economic exchanges took place only between Singapore and Johor, and Singapore and Batam.

The link between Johor Baru, Malaysia and Singapore, forged by market forces and geography, existed for many years before the inception of the Growth Triangle. The Causeway connecting peninsular Malaysia and Singapore was built in 1924, and commerce has organically passed between the regions for years. As early as the 1970s Johor was equipped with reliable infrastructure for production and transportation of manufactured goods, as well as transparent rules and regulations governing the labor force
and exports of goods (Lee, 1995). For example, French TNC Thomson Consumer Electronics had a fully operational factory in Johor in 1979, 10 years before Deputy Prime Minister Goh’s announcement of the formation of the ‘triangle of growth’.

In contrast to the historical connection between Singapore and Johor, the link between Singapore and Batam was established during the period of the Growth Triangle. While the Singapore-Johor link originated with market mechanisms, the Singapore-Riau link was forged through political arrangements and collusive relations between transnational corporations and the state during the 1990s. The only official arrangement pertaining to the Growth Triangle was signed between Singapore and Indonesia in 1990 in Batam. The two governments agreed to jointly develop the Riau Archipelago, focusing specifically on the industrialization of Batam (“Singapore, Indonesia Sign,” 1990).

The Singapore government marketed the Growth Triangle concept to TNCs on the basis of complementarity and profit maximization in an investment friendly atmosphere. Each point on the Growth Triangle offered something advantageous to corporate managers. Singapore’s well established transport and telecommunications networks coupled with a well-educated managerial workforce fit nicely when operating in juxtaposition to the inexpensive land and labor of nearby Johor and Batam. Batam is a 45 minute ferry ride from Singapore, and the city-state and Johor are connected by the Causeway land crossing. When the TNC relocations from Singapore to Johor and Singapore to Batam began occurring on a larger scale in the beginning of the 1990s in accordance with Singapore’s regionalization scheme, factor cost comparisons were both attractive and competitive in TNC managers’ final calculus (Naidu, 1998).
Table 5.1

Factor Cost Comparisons in SIJORI Growth Triangle, 1991 (USD)

<table>
<thead>
<tr>
<th></th>
<th>Johor</th>
<th>Singapore</th>
<th>Batam</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land (per sq m)</td>
<td>4.08</td>
<td>4.25</td>
<td>2.30</td>
</tr>
<tr>
<td>Labor (per month)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unskilled</td>
<td>150</td>
<td>350</td>
<td>90</td>
</tr>
<tr>
<td>Semiskilled</td>
<td>220</td>
<td>420</td>
<td>140</td>
</tr>
<tr>
<td>Skilled</td>
<td>400</td>
<td>600</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: Naidu, 1998

Furthermore, the direct participation of Singapore’s well-reputed GLCs in the development and management of industrial parks reduced uncertainties from the perspective of TNC managers toward implementing a regionalization strategy advocated by the Singapore government.

Singapore’s intentions of developing the island of Batam into a link in the SIJORI Growth Triangle were legitimate, reflected in the almost immediate injections of financial capital and managerial know-how. The 1990 signing of the joint agreement to develop the Riau region took place as the first row of factories was completed in Batamindo Industrial Park; the hallmark of state-firm collusion in Batam. But financial capital, TNC interest, and Singapore government encouragement were not sufficient for Batam’s industrialization to be a fait accompli. In order for Batam to successfully develop in accordance with the plans of Singapore’s regionalization experts, the Indonesian government had to collaborate in Singapore’s vision, as well as take steps toward creating attractive investment incentives for GLC developers and relocating TNCs. Fortunately this process had already begun across much of Indonesia. The collusive, liberalizing economic initiatives underway in Indonesia aligned closely with policies sought after by both the
state in Singapore and TNC management. Policy changes from Jakarta during the late 1980s welcoming a collusive relationship with transnational firms, particularly in the Riau province region were integral to the realization of the Singapore-Riau side of the SIJORI Growth Triangle.

5.2 Phase I: Collusion in Batam

Interestingly, the Singapore government was more involved in Batam’s industrialization than that of Indonesia. Economic engineers within Singapore’s state apparatus were in the midst of renovating the manufacturing industry by replacing labor intensive industries with higher-value added manufacturing. Economic planners in the government devised a way to move labor intensive manufacturing facilities off the island while keeping TNC regional headquarters grounded. Lacking any hinterland, tiny Singapore looked to its northern and southern neighbors and arranged mutually beneficial, implicit regionalization agreements with governments in Malaysia and Indonesia.

The objective of regionalizing was to distribute TNC operations across two or three countries, linking different factor endowments and maximizing comparative advantages offered by each of the three disparate economies (Sree & Lee, 1991). Management, engineering, marketing and other divisions requiring a highly educated workforce would remain in Singapore. Johor Baru and Batam would be capitalized on for inexpensive wage rates and comparatively inexpensive land.

At the time of its inception, each point on the triangle stood to gain from cooperating with the regionalization scheme. Short on land and labor, the Singapore government could relocate transnational corporations’ labor intensive operations to another country without creating large distances between Singapore offices and factories.
in Batam and/or Johor. Batam is a 45 minute ferry ride from Singapore, and Johor Baru, Malaysia is a short drive across the Johor Strait Causeway, traffic permitting. The geographic proximity of Growth Triangle participants reinforced Singapore’s ability to retain high-skill jobs created by TNC presence. From the beginning it was planned that Singapore would house the managerial, marketing and engineering talent. The Growth Triangle concept did not promulgate an exodus of TNC managerial talent from Singapore; rather it promoted export good production and assembly in Batam, with operations remote controlled from Singapore.

The major advantage to Batam is the proximity to Singapore. That is where all of the technical and engineering support is. If there is a problem, support can arrive within one or two hours (B. Liau, personal interview, July 22, 2005).

Meanwhile, the Indonesian state benefited from TNC relocation in numerous ways. After years of import-substitution industrialization buttressed by oil wealth windfalls, by the late 1980s the New Order government in Indonesia began taking steps toward attracting foreign direct investment. Labor intensive industry relocation from an internationally reputable entrepôt such as Singapore, coupled with GLC assistance and expertise toward erecting export-oriented industrial estates satisfied the leadership in both Batam and Jakarta. The only formal agreement ever signed pertaining to the SIJORI Growth Triangle was between Singapore and Indonesia, when heads of state from each country agreed to jointly develop the Riau Archipelago (Ahmad, 1993). No such formal arrangement was reached between Singapore and Malaysia, nor Indonesia and Malaysia, in spite of the support for the Growth Triangle by Prime Minister Mahathir Mohammad. Collusion between the states as well as TNCs in Batam was perhaps best depicted during this August meeting. The joint development arrangement signed by Singapore and
Indonesia’s heads of state was arranged to coincide with the opening of the first row of TNC-leased factories inside Batamindo Industrial Park (“Singapore, Indonesia sign”, 1990). The provisions of the joint agreement are addressed below.

Table 5.2

Singapore-Indonesia Joint Agreement on Riau's Development

| Simplification of product distribution, payment, and delivery procedures between Singapore and Riau provinces; |
| Joint tourism promotion and development; |
| Cooperation in water supply and transportation to Singapore; |
| Cooperation in development and maintenance of infrastructure for joint development projects; |
| Cooperation in industrial and technological development in the Riau province, including trade, agriculture and warehousing; |
| Exchange of visits by advisers, specialists, and trainees; |
| Simplification of the tax system to facilitate investments; |
| Simplification of entry and exit procedures |

Source: Pangetsu, 1991

The period immediately following Deputy Prime Minister Goh’s announcement of the SIJORI Growth Triangle was marked by increased collusion between governments in Singapore and Indonesia, but also between TNC management and the state apparatuses involved in the Growth Triangle development. National governments and firms shared complementary objectives during this collusive stage in Batam's development. Transnational corporations operating in Singapore were reeling from massive pay hikes mandated by the National Wage Council. Labor intensive industries, because of their formerly artificially suppressed pay rates were hit the hardest, and TNC managers confronting rising wage bills were seeking reliable destinations to relocate (Rodan, 1985). Batam’s competitive land and labor costs attracted TNC managers, and risks associated with investing in an underdeveloped island in Indonesia were ameliorated by
close involvement of the regionalizing Singapore government. Since oil prices dropped in the mid-1980s, the Indonesian state gradually embraced a progressively liberalized philosophy toward export-oriented TNC investment. Equally important, the state enforced such a philosophy with transparent policies allowing foreign ownership and limiting its negative list of forbidden goods. Based on the cohesive action taken by both governments, collusion was soon reached between the states and TNCs on the issue of industrialization and relocation of labor intensive industries in Batam under the Growth Triangle schema.

5.3 The Singapore Government's Collusive Action

The role of Singapore’s national government is critical in understanding the rapid success of Batam during the first, collusive phase of its industrialization. Because regionalization was essential to Singapore’s national development strategy, pouring money into what may be construed as another country’s development actually worked in the favor of Singapore. The exodus of labor intensive industries was necessary for Singapore’s foray into areas of high technology manufacturing, as well as a more service oriented economy. Because of this, appendages of the state in Singapore permitted large amounts of capital to be transferred into construction efforts in Batam. The Monetary Authority of Singapore exemplifies state-firm collusion with their actions during Batam’s first phase of industrialization.

The Monetary Authority of Singapore (MAS) is responsible for overseeing monetary policy, issuing currency, and managing the official foreign reserves of the country. The MAS also approves both domestic and offshore loans issued with Singapore currency (Monetary Authority of Singapore [MAS], 2006). The conditions under which
the MAS approved a 1993 loan to the Batamindo Investment Corporation (BIC) reveal how collusive the state-firm relationship was regarding Batam’s industrial estate development.

Development of the first industrial estate in Batam was undertaken by a joint entity composed of Singapore government linked corporations (GLC) and a large Indonesian conglomerate, the Salim Group. The estimates for building Batamindo Industrial Park hovered around USD 600 million. When the joint venture, named Batamindo Investment Corporation (BIC), inquired about loan parameters from the MAS, the conditions set forth were very relaxed. BIC was able to surpass normal maximum lending limits as mandated by the MAS, and also received favorable tax concessions. Usually loath to lend offshore in Singapore dollars, the MAS announced that an industrialization project such as the erection of Batamindo Industrial Park justified favorable lending practices, given its beneficial consequences to the country as a whole (“MAS Further Relaxes, 1993). In other words, the MAS exhibited leniency toward BIC because the Singapore government perceived the industrialization of Batam, Indonesia to be beneficial to the progress of Singapore.

Collusive action between government leaders in Singapore and Indonesia and transnational corporations in Batam continued throughout the 1990s. President Suharto’s New Order leadership in Jakarta contributed to collusion by permitting the Batam Industrial Development Authority (BIDA) greater latitude in its decision-making and permitting the BIDA to take on more tasks in order to facilitate the establishment of new investment. TNC managers interpret slow, often corrupt, bureaucratic practices as anathema to competing transnationally. “Transnational investors trying to integrate
operations across a shifting variety of national contexts need competent, predictable public sector counterparts (Evans, 1997, 72). Thus, the involvement of BIDA and the local government to expedite decision-making was looked upon favorably by TNC managers. Collusion between TNCs and the state in Batam was possible not only because of the large injections of capital and support from reputable GLCs in Singapore, but also because of the systemic changes implemented from within the New Order government in Indonesia toward how business was done in Batam.

5.4 Phase II: Rivalry in Batam

The first phase of Batam’s industrialization was marked by great collusion and success. The figure below clearly depicts Batam's growth during the 1990s.

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**Figure 5.1: Foreign Private Investment in Batam**

Source: BIDA, 2002
The flow of new investment increased annually, peaking around the time of the Asian Financial Crisis. The post-crisis era began a second, more rivaled phase between TNCs and the state in Batam. The second phase continues into the present and encapsulates many issues, but the topic causing the most instability as far as the impact on new flows of investment is concerned is the uncertain future surrounding Batam as a free trade zone.

In May 1998, Indonesia's President Suharto stepped down from power in the wake of the devastation caused by the Asian Financial Crisis. Suharto's New Order leadership was replaced with a nascent democratic government. Since then, slow moving debate in the Jakarta assembly regarding investors and production legislation affecting Batam has eroded some of the quick decision-making powers formerly held by local officials. Because of confusion and inaction in Jakarta, many TNC managers are unaware of whether Batam will earn free trade zone status or not. This uncertainty results in market failures, and potential new investment seek more predictable destinations elsewhere for their labor intensive, export-oriented production. The way the free trade zone issue is being handled by the Indonesian state has brought a shift from a collusive state-firm relationship in Batam, to one colored more by rivalry.

In Batam's post-Suharto, post-Asian Financial Crisis era, objectives of various interests no longer complement one another, and rivalries emerge from such dynamic differences. Transnational corporation managers and local investment authorities in Batam clash with the central government and even international institutions such as the International Monetary Fund (IMF) over numerous issues. The most prevalent is the question of free trade zone status for Batam and surrounding islands in the Riau
Archipelago. The inaction and confusion on the part of Indonesia's government over free trade zone legislation in Batam creates uncertainty throughout the business community. Because of this, a “wait-and-see” attitude has emerged, and formerly large injections of FDI into Batam have slowed down significantly. Such tension and rivalry between non-complementary state-firm objectives persists on the island today.

5.5 Free Trade Zone Debates

The new government in Jakarta has been slow to clarify exactly what investment incentives await transnational corporations in Batam. In late 1999, President Abdurrahman Wahid proposed the idea of transitioning the legal status of Batam and the surrounding Riau Islands from bonded zone to free trade zone (“Batam Asks”, 2000). Luhut Panjaitan, the former Indonesian ambassador to Singapore also asserted that Batam and other islands in the Riau chain would form a free trade zone around the same time. Singapore Prime Minister Goh Chok Tong, excited about the possibilities for investment in an FTZ Batam, vowed to lead a delegation in early 2000 alongside potential labor intensive manufacturing investors (Pang, 1999). It appeared as though passing free trade zone legislation in Batam could reinvigorate state-TNC collusion on the island. This however, did not occur. Free trade zone legislation for Batam was not passed in 2000. Even today the proposal continues to be debated by the legislature in Jakarta. Meanwhile, inaction and uncertainty on the part of the state causes foreign direct investment flows into the “Batam bonded zone plus free-trade enclave” to remain below their potential, according to many investment authorities on the island.

The unimpressive levels of foreign direct investment could be attributed to the failed attempts to effectuate a free trade zone in Batam. But, as will be illustrated, the
difference between the two policies is not drastic. Perhaps more damaging to investment potential in Batam is the political indecision and mixed messages from Jakarta regarding such policies. Inaction on the part of the state destabilizes investor confidence, and TNCs pass up investment opportunities in Batam not so much for the paucity of incentives offered, but the glut of state uncertainty and confusion that envelopes the business community.

The differences between a bonded zone and a free trade zone are themselves, not very striking. In a bonded zone arrangement, TNCs operating inside Batam are exempt from import duties, export duties, value added tax (VAT), and are allowed 100% foreign ownership, provided their production is export-oriented (BIDA, 2004). All of the same conditions would apply in a free trade zone, with two exceptions. First, the exemptions on taxation in a bonded zone are customary, but not guaranteed. As will be seen, programs enacted by the International Monetary Fund in the aftermath of the Asian Financial Crisis stood to jeopardize tax shelters in Batam. In the event Batam became a free trade zone, exemptions from import/export duties, VAT and luxury tax would be guaranteed by law (“Batam Asks”, 2000). Secondly, in a free trade zone, TNCs would not be exposed to the collection of customs duties nor customs inspections at its ports. Without any guarantees, transnational corporations are reluctant to invest in bonded zone Batam for fear of profit-threatening taxation. Such an event nearly occurred in 2001 under pressure from the International Monetary Fund.

The Indonesian economy, struck hard by the Asian Financial Crisis sought the assistance of the International Monetary Fund in the form of a USD 5 billion rescue package in order to get economic activities in the country back on line. In an effort to
increase government revenues and finance the state’s budget deficit, the IMF urged the central government in 2000 to impose a 10% value added tax (VAT) on firms across Indonesia, including Batam. The VAT went into effect everywhere but Batam. The tax met fierce opposition from the approximately 400 export-oriented TNCs operating inside the island’s industrial estates. TNC managers in Batam made the case that the VAT would drive up costs, reduce attractiveness for new investment, and become confusing when VAT rules mixed with the ongoing free trade zone legislation. In the face of strong TNC lobbying, Indonesia's director general for taxes postponed the implementation of the new tax regime until the free trade zone issue was resolved (Kagda, 2001).

The first phase of Batam’s industrialization met very few of the challenges that presented themselves after the Asian Financial Crisis. Collusion was reached with greater ease during the first phase because of the authoritarian leadership of President Suharto. Presidential decrees during New Order rule created lopsided, preferential investment conditions for TNCs in Batam and the surrounding Riau Archipelago. In the post-Suharto era TNC-state rivalries surfaced, especially as the state was in dire need of accumulating revenues after an economic setback of the magnitude of the Asian Financial Crisis. Furthermore, representative from provinces across all of Indonesia compete with one another in Jakarta for equitable treatment under the law, and concomitant incentives to offer potential investors; such an issue did not arise during President Suharto’s leadership. But the lack of consensus on the part of the state to concretize an attractive and reliable investment scenario for TNCs considering moving to Batam has been devastating to the momentum built up during the collusive phase of the 1990s. TNC managers in Singapore and state officials in both Batam and Singapore agree. TNC managers are presently
taking a ‘wait and see’ attitude before moving operations to Batam. Inaction and
indecision is too risky for many investors, and greenfield investment in a developing
country with opaque investment incentive packages is a gamble many TNCs choose not
to take.
Chapter 6

Transnational Corporations in Batam

This chapter presents the current conditions of foreign direct investment in Batam. The chapter also provides greater insight of state-TNC relations through case studies of two firms in Batam that followed the SIJORI Growth Triangle model of moving labor intensive operations from Singapore to Batam. Both firms maintained linkages with Singapore, keeping offices for management in the city-state. Alpha Company and Beta Company provide firm-level insight to the rival relationship between transnational corporations and national governments currently in place in the industrializing, yet highly uneven landscape of Batam, while simultaneously identifying emerging trends for Batam beyond the Growth Triangle.

6.1 Batam’s Economic Landscape

Twenty industrial estates of varying sizes dot Batam today, housing nearly all of the island’s approximately 700 TNC production facilities. Walled-in, nearly completely self-sufficient industrial parks were erected primarily so that TNCs could circumvent the underdeveloped infrastructure in Batam during the early 1990s. While each estate possesses its own unique amenities, each was built in the image of the island’s central park, and one of its largest employers. Batamindo Industrial Park (BIP) is the cynosure of Singapore-Indonesia-TNC tripartite state-TNC collusion during the first phase of Batam’s industrialization. Since then, numerous other economic enclaves sprouted up throughout the island. Debate over uncertain investment incentive packages, particularly those revolving around the free trade zone issue drive present day rivalries between
TNCs and the state during Batam’s second phase of industrialization in the post-Suharto, post-Asian Financial Crisis era.

Batam’s population during the 1970s was a fraction of what it is today. The small fishing village slated for oil and gas exploration attracted thousands of Indonesians from other islands when state-TNC collusion began making Singapore-Riau links within the SIJORI Growth Triangle a reality during the beginning of the 1990s. Population growth in the 1990s closely followed employment creation resulting from the 1990 joint development agreement between the governments in Singapore and Indonesia. The Salim Group, an Indonesian conglomerate partnering with Singapore GLCs to develop Batamindo Industrial Park took the responsibility for bringing competent laborers to Batam (Yeoh, 2003). Workers from Java, Sumatra, and Kalimantan were recruited during the 1990s to move to Batam and labor in one of the several industrial estates. “Most people who live and work in Batam are migrants, between 18 and 40 years old. You don’t see many schools or playgrounds do you?” (C. Lee, personal interview, July 22, 2005). As illustrated in this quote from the general manager of operations of Batamindo Industrial Park, Batam is largely comprised of working aged men and women who migrate to Batam from other islands, typically without their families.

The very latest data indicate the population in Batam eclipsed 600,000 sometime during 2005. Today, the local government claims there are 626,113 registered residents in Batam. Among those, 224,332 residents constitute the workforce. Agriculture, construction, hotel and restaurant sectors attract some workers, but the vast majority, 172,873 works in the manufacturing sector; meaning that the majority of the transnational corporations either originating or transplanting from Singapore employ nearly 80% of
Batam’s workforce. Furthermore, Batamindo Industrial Park alone employs approximately 66,000 workers in the manufacturing sector, representing over one-third of the island’s industrial employment. It is also interesting to note that the manufacturing sector employs over 95% of the 3,169 foreign nationals presently working in Batam (BPS, 2005).

The manufacturing sector dominates Batam’s economic landscape. Large and medium sized industries, predominately owned by transnational corporations, generate 53% of the province’s USD 1.61 billion dollars in gross domestic product (GDP). As the graph below indicates, tourism and natural resource extraction contribute to growth in Batam, but it is clear that the manufacturing sector is responsible for the majority of wealth generation in the province.

![Figure 6.1: Distribution of Domestic Product in Batam (2004-2005)](source: BPS, 2005)
6.2 Transnational Corporation’s Operations in Batam

Transnational corporations headquartered in the developed world comprise the majority of the foreign direct investment in Batam. Over 700 transnational corporations conduct their variegated businesses on the island. The Singapore Economic Development Board collected the most formidable and updated list of the countries of origin for 544 of these operations. The sectors of these operations are predominately, but not exclusively in the manufacturing sector. Moreover, some facilities comprise joint ventures between two or more sovereign states. The data on the following page reveals the overwhelmingly large influence collusion and geography has upon the involvement of Singapore transplants on Batam’s economy.
Table 6.1

TNCs in Batam by Country of Origin

<table>
<thead>
<tr>
<th>Country of Origin</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>217</td>
</tr>
<tr>
<td>Singapore, Indonesia</td>
<td>130</td>
</tr>
<tr>
<td>Singapore, Japan</td>
<td>32</td>
</tr>
<tr>
<td>Singapore, Other</td>
<td>24</td>
</tr>
<tr>
<td>Singapore, Malaysia</td>
<td>23</td>
</tr>
<tr>
<td>Malaysia</td>
<td>16</td>
</tr>
<tr>
<td>Japan</td>
<td>12</td>
</tr>
<tr>
<td>Korea</td>
<td>12</td>
</tr>
<tr>
<td>Taiwan</td>
<td>9</td>
</tr>
<tr>
<td>United States</td>
<td>9</td>
</tr>
<tr>
<td>Australia</td>
<td>6</td>
</tr>
<tr>
<td>China</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>52</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>544</strong></td>
</tr>
</tbody>
</table>

Source: EDB, 2004

Interestingly, Batam does not house TNCs which cluster in the production of a single primary product. “Batam has no natural resources and no people. They also don’t have a niche product, yet” (A. Pang, personal interview, June 22, 2005). Batam’s TNCs operate in numerous industrial capacities, producing everything from vehicle components to hearing aid equipment. Approximately 95 firms, or 20% of the 544 TNCs surveyed by the Economic Development Board specialize in electronic component manufacturing and assembly. Plastic packaging (36), shipbuilding (32) and steel fabrication (21) round out the most prevalent of groupings among goods produced in Batam’s manufacturing sector,
but the data echo statements made by the TNC manager above; Batam is not known for any one particular product.

While there is no niche product, some of the more common TNCs located in Batam are those specializing in electronic sub-assembly and steel fabrication. The following section presents case studies of two companies, one from each of these more common sectors. Both firms shed light on the history of Batam and path of investment followed under the Growth Triangle framework. The path each firm has taken provides insights to ongoing state-TNC collusion and rivalry in Batam. The case studies also assist in understanding projections for Batam’s future beyond the Growth triangle, emerging trends for the Singapore-Riau side of the SIJORI Growth Triangle.

### 6.3 Case Study I: Alpha Company

Alpha Company’s investment patterns embody the spirit of Singapore’s second industrial revolution, regionalization, and the SIJORI Growth Triangle. A transnational corporation headquartered in Western Europe, Alpha moved operations to Singapore in the beginning of the 1980s to take advantage of cheap, reliable, labor intensive labor. Alpha opened up production facilities in the city-state and exported goods out of Singapore’s world renowned port; predominately back to its original European market. Facing rising wages due to the action of the National Wages Council in the 1980s, Alpha shifted its arm of labor intensive production to Batam in 1992 after Singapore-Indonesian state collusion was reached on developing Batam and constructing Batamindo Industrial Park. While labor intensive production moved inside Batamindo, engineering, marketing and management remained in a small office suite in Singapore. Because the history of Alpha Company so closely parallels objectives of the Growth Triangle engineers,
managerial projections for the future of Alpha are helpful in discerning the future of Batam beyond the Growth Triangle.

Alpha Company established itself in Finland in 1942. The firm specializes in the production of plastic film, paper and electric capacitors. Capacitors are used as energy storage devices in industrial and consumer electronics. Alpha Company produces three kinds of capacitors, and predominately markets to other manufacturers in various industries. Capacitors are found in many kinds of audio and video consumer electronics, as well as automotive, measuring, and lighting equipment. Alpha distributes over two-thirds of its output back to Europe, 17% of which goes to Nordic countries alone. Beyond the European market, Alpha distributes 20% to Asia and 11% to the United States.

Alpha Company is truly transnational, with interdependent units established all over the world. The offices in Singapore and factory in Batam are only two of the units which comprise the Alpha network. The company houses production facilities in Batam, Sweden, Finland, the United Kingdom, and China. The newest addition to Alpha’s production locales is the China plant, a joint venture opened in Nantong in 2002 in which Alpha maintains an 80% holding. Alpha Company sales offices can be found in 43 countries on 6 continents.

Alpha’s Southeast Asia relocation of production closely resembles the objectives of the state-TNC collusion established under the SIJORI Growth Triangle framework. In 1992, Alpha Company divided its managerial and production operations between Singapore and a newly industrializing Batam. After ten years of operating under one roof in Singapore, the firm aligned its action with ideas espoused by the Singapore state under
its regionalization plan and Growth Triangle concept. The motivations for the division were profit-oriented, but also carried logistical ramifications.

Why did we move? Because costs were cheaper, they still are. But also because Batam is so close to Singapore, close to shipping and the original facilities. In '92 the new Batam location relied heavily on Singapore support. Still does. Batam facilities are not independently operating today. Management control is still in Singapore, and will not move to Batam. Well some are in Batam, but they come home on the weekend. Put simply, Batam does not have management manpower (A. Pang, personal interview, June 22, 2005).

Once Batamindo Industrial Park went operational, Alpha’s Singapore management commented that interactions between Singapore and Batam were smooth during the 1990s. Because of its location within the sophisticated Batamindo Industrial Park, production in Batam, re-export for distribution out of Singapore functioned without any difficulties. “Communicating and moving products, customs and so on is simple. It’s not like it’s two countries” (A. Pang, personal interview, June 22, 2005). The collusion Alpha experienced during the 1990s was largely attributed to shared goals among the Singapore state, Indonesian state and TNC management. Indonesia’s leadership during this period left a large amount of the decision-making to local authorities in Batam. The BIDA worked diligently to create smooth production transitions for TNCs shifting part of their operations to industrial estates in Batam.

Alpha’s bifurcated production facilities in Singapore and Batam operated successfully since the opening of its Batamindo Industrial Park facility in 1992. For close to ten years production continued, and capacitors manufactured in Batam fed the European market, shipped out the Port of Singapore. In 2002 Alpha Company opened up a new production facility in Nantong, China. Given Alpha’s established reach in the
global economy, the marketing manager in Singapore indicated that after a few trial years, it is his assumption that the production facilities in Batam will be phased out and relocated entirely in China. In the field of capacitors, there is a high demand for support industries for finished products. The Singapore manager asserted that Batam lacked this supporting industry, and China was the place to go not only for industry clustering, but also to be closer to the large Chinese market. “There is no supporting industry for finished products, motors, parts, etc. They are almost all in China, except for the very high end parts. They (factory in Batam) would have to import so many products it would not be worthwhile” (A. Pang, personal interview, June 22, 2005).

Overall Alpha managers were pleased with the firm’s smooth transition from Singapore to Batam beginning in 1992. In the second phase of Batam’s industrialization however, Alpha’s staying power in the face of increased rivalry between TNCs and the state is questionable, especially with a new production facility fully operational in China. The projections for Alpha Company’s future in Batam, as well as trends identified by Alpha managers for the future of Batam are addressed in the next chapter.

6.4 Case Study II: Beta Company

The diversity of Batam’s investment landscape is articulated when comparing the profile of Alpha Company with that of Beta Company. Beta Company is a transnational corporation with a storied history in Batam. Beta is a world-renowned engineering firm focusing specifically on the needs of the oil and gas industry. Beta Company installs offshore oil pipelines and offers services in design, fabrication, transportation and installation of offshore oil platforms. Completed Beta projects currently stand in such oil-rich locations as the Gulf of Mexico, Caspian Sea and throughout the Middle East.
Beta is one of only nine U.S. headquartered companies within Batam. After gaining notoriety for building an offshore platform in the Gulf of Mexico in 1950, this Houston, Texas headquartered firm expanded beyond U.S. borders. Currently Beta Company maintains major operation centers in the United States, Mexico, Indonesia, and Dubai, United Arab Emirates. Supporting the centers are offices in the United Kingdom, Singapore, Malaysia, India, Australia and Azerbaijan.

Beta’s Batam facility is unique for at least two reasons. First, the facility’s establishment precedes the SIJORI Growth Triangle and industrialization of Batam. Because of its focus on the oil and gas industry, Beta embedded itself in Batam during the Suharto government’s oil rich days during the 1970s. Offshore oil platform design, fabrication and installation facilities were thus built by Beta when Batam was targeted to be “the supply centre for the booming oil and gas industry in Indonesia and, indeed, the ASEAN region as a whole” (Phelps, 2004, 210). Secondly, Beta’s Batam facility is unique because it is not located within an industrial estate. Because of the nature of the work of oil platform fabrication, an enormous yard is required. Beta’s offices, warehousing, storage, painting, fabrication and assembly all take place within one yard, measuring approximately 242 acres. Because of the nature of Beta’s work, the company was unable to simply rent out space in a traditional industrial estate. Nevertheless, the government in Jakarta and Batam colluded with Beta’s managers, and Beta enjoys the same exemptions on VAT and import and export duties as TNCs within industrial parks.

We were given a three month window to take bonded zone status. It meant changes in taxes and inventory if we did not have bonded zone status. So we applied for it and got it. Since we are an export company we need the tax exemptions. We didn’t fulfill all of the bonded zone rules when we applied. For example we have to be all fenced in, like Batamindo, which we weren’t. But
we promised we would complete that. The government said okay, they were very flexible (A. Walewangko, personal interview, July 15, 2005).

Beta managers emphasize the flexible relationship with Indonesia’s government officials. Because of the longtime establishment of Beta’s operations, there is a direct link between Beta management and the central government in Jakarta. Unlike many other TNCs that followed the SIJORI Growth Triangle model, Beta’s operations are managed in Batam and Jakarta, not Singapore. Offices are located in both areas, but managers stress the importance of the relationship between Beta representatives and government officials in Jakarta, specifically when it comes to superseding the local government.

We have a head office in Jakarta, they take care of things. We go over the local government if we cannot reach an agreement here. And it is always taken care of. Some companies are shutting down, but they are not on the ‘right track’ like we are (A. Walewangko, personal interview, July 15, 2005).

Not being on ‘the right track’ as the Beta manager mentions here, points to the bureaucracy and government uncertainty expressed during the second phase of Batam’s industrialization. It is this uncertainty which has led to a trend of decreasing new investment.

Because of the size of Beta Company’s yard, undertaking oil platform fabrication in Singapore would be impossible. The cost of land alone would price Beta’s products out of competitiveness. Inexpensive land in Batam, coupled with cheap labor, the majority of which is recruited from the island of Java continues to prove to be valuable components of Beta’s operations. Cheap land and labor however, are only part of a wider range of incentives considered by Beta’s managers for continuing to operate in Batam.
Beta’s managers emphasize non-tangible factors such as comfort and reputation to describe why Beta’s facilities remain in Batam. For example, Beta has been entrenched in Indonesia’s business community for thirty years. Because of this, there is a close-knit relationship with both government officials and labor.

Here the labor union and the management work together. We could reduce our workforce from 6000 to 600 and do it without a strike. Since we have been here for 30 plus years, there is an acceptance of employment cycles. We pay retrenchment benefits. We follow the minimum government regulations (A. Walewangko, personal interview, July 15, 2005).

Beta’s TNC managers went on to remark that comfort plays into Batam’s attractiveness more than some may think. Logistically, it is beneficial for Batam to be 20 kilometers from Southeast Asia’s international business service epicenter; Singapore. Furthermore, state of the art and internationally renowned port facilities provide TNCs in Batam the outlet necessary to export goods worldwide with relative ease. But there is more to it, according to Beta’s managers. “Batam is attractive for human reasons. Companies are having difficulty sending expats to work in places like China” (M. Jeffers, personal interview, July 15, 2005). The ability to procure competent engineering and managerial staff is difficult elsewhere, largely because the regions are “too developing”. Batam has experienced this, but the problem is tempered by its proximity to Singapore. “Large companies are having difficulty bringing clients out here to oversee projects. It’s too developing. But it helps to have Orchard Road, places like that in Singapore to make it more tolerable” (M. Jeffers, personal interview, July 15, 2005).

Is it possible for intangible assets to retain the foreign direct investment of such transnational corporations as Beta Company? With the shift from collusion to rivalry in the post-Asian Financial Crisis era, is it possible for Beta Company to maintain a positive
relationship with government officials in Jakarta, based essentially on an understanding of its longevity in the region? What are the projections for Beta Company’s future in Batam? What trends do they identify as unfolding between firms and the state in Batam and the Singapore-Riau link of the SIJORI Growth Triangle? Questions such as these are addressed in the next chapter.

Over 700 diverse transnational corporations currently operate in Batam, Indonesia. The majority of these firms operate in the manufacturing sector, employing nearly 80% of the island’s workforce. Twenty industrial estates are scattered across the island, housing the majority of the manufacturing oriented TNCs. Many TNCs divide production between offices in Singapore and factories in Batam, thus following the intentions of the state in Singapore according to the SIJORI Growth Triangle regionalization scheme. A majority of the over 700 TNCs in Batam began operations during the first phase of industrialization in Batam, when the national governments of Singapore and Indonesia colluded with TNCs to follow the scheme which built up Batam and mutually benefited all parties.

The second phase of industrialization however, in the post-Suharto, post-Asian Financial Crisis, has been one of greater state-firm rivalry. Some TNCs have left Batam, and new investment has slowed down considerably. Alongside these rivalries, there are also noticeable trends of collusion emerging on the state-firm scene in Batam, albeit on a smaller scale.

Much like the industrialization which took place in Batam during the early 1990s, the island stands to benefit from objectives of national development strategies in Singapore, not Indonesia. If action taken by the Singapore state to strengthen and
regionalize its small and medium sized enterprise (SME) sector is received well by the nascent democratic government in Jakarta, there is an opportunity for a reinvigoration of state-firm collusion, beyond the Growth Triangle.
Chapter 7
Beyond Collusion and Rivalry: Emerging Trends in Batam

The Indonesian government’s national development strategies impact industrialization in Batam, but history has shown Batam’s economic landscape is more significantly impacted by state action in Singapore. The short distance between Batam and Singapore and the long journey between Batam and Jakarta is more than simply one of geographical space. “Batam is so far away from Indonesia” (A. Pang, personal interview, June 22, 2005). After the Singapore government promoted the SIJORI Growth Triangle concept to transnational corporations as part of its larger regionalization strategy in the 1990s, Batam’s economic landscape was irreversibly altered. In the post-Asian Financial Crisis era, Singapore’s strategic national interests continue to impact flows of foreign direct investment into Batam, albeit on a smaller, more narrowed scale.

This chapter addresses emerging trends toward a resurgence of collusion along the Singapore-Riau side of the SIJORI Growth Triangle. Similar to the era of regionalization, flows of new investment into Batam, Indonesia stand to increase from actions undertaken by Singapore’s national government. This time however, the vision for Batam Island in the eyes of the state is quite different from its original intention. Bodies within the Singapore government such as the Economic Development Board (EDB) are encouraging regionalization of small and medium sized enterprises (SMEs). Batam Island, Indonesia may not manufacture a niche product, but from the perspective of Singaporean entrepreneurs and the state apparatus, it has the potential to function as a
springboard for the globalization of Singapore headquartered small and medium sized enterprises.

7.1 The Decline of New Investment in Batam

The Singapore government’s focus on Batam’s industrialization and the SIJORI Growth Triangle foundered during the late 1990s, marking the beginning of Batam’s second phase of industrialization. In the wake of the Asian Financial Crisis, economic strategists in the city-state looked elsewhere, beyond the immediate Southeast Asia region to ensure Singapore’s continued economic success. Regionalization gave way to a stronger embrace of globalization, manifested in a spate of bilateral free trade agreements between Singapore and various strategic states outside of Southeast Asia. Flows of foreign direct investment into Batam fluctuated in the post-Asian Financial Crisis era, settling at an average much lower than years past. From an apex of USD 345 million in new investment in 2000, the past three years have consistently hovered around USD 60 million per year in new project investment (BPS, 2005).

Reduced investment flows into Batam can be explained by numerous factors, each of which assists in identifying emerging trends in state-firm relations along the Singapore-Riau side of the Growth Triangle. The inability of Indonesia’s central government to resolve Batam’s free trade zone debate presages rivalry and flows of new investment below investment authority expectations. TNC managers and government officials agree that because of Batam’s advantageous location near Singapore, investment incentive packages do not have to be the most enticing. Rather, certitude on investment policies must simply be reached. Firm, reliable policies have not been acheived,
strengthening an already pervasive attitude of ‘wait and see’ among TNCs in Singapore, and frustrating development authorities in Batam.

Emerging trends in Batam’s state-firm relations remain closely linked to the evolving strategic interests of Singapore’s national government. Bilateral trade agreements with states outside the Southeast Asia region symbolize Singapore’s present global outlook. In the wake of the Asian Financial Crisis and 9/11 terrorist attacks, policymakers consider economic, political and security interests when approaching bilateral free trade arrangements. In spite of such a shift toward economic relations outside the region, strategists within the state continue to promote Batam as a destination for Singapore direct investment, albeit on a smaller scale. Agents within Singapore’s Economic Development Board look to Batam as part of a drive to improve the success rates for its inexperienced, underdeveloped and historically overlooked entrepreneurial sector. Provided the central government in Jakarta takes steps toward ensuring a reliable investment environment on the island, Batam has the potential to serve as a safe, cross-border springboard for Singapore’s small and medium-sized enterprises.

7.2 SME Government Promotion in Singapore

Small and medium-sized enterprise promotion currently underway in Singapore represents the next phase, the future for sustaining levels of new foreign direct investment in Batam. The Singapore government is closely involved in cultivating the city-state’s entrepreneurial environment, encouraging firms to expand and raise their global competitiveness. In 2000 the Singapore government defined SMEs in the following fashion.
Companies with at least 30% local equity and fixed productive assets (i.e. net book value of building, machinery and equipment) of not more than S$15 million and staff strength of not more than 200 if they are in commerce or service sectors (Hew, 2004, 178).

In 1999 the 102,750 domestic SMEs in Singapore constituted 89% of all establishments and 52% of all employment. While these figures reveal a significant SME presence, it is important to note these firms contributed only 24% of total sales (Hew, 2004, 178). Furthermore, the value added per worker in an SME is less than half of other enterprises, highlighting the low productivity rampant in Singapore’s SME sector (Hew, 2004).

Singapore’s government recognizes the low productivity and low rates of outward investment among its SMEs. The state is responding by creating incentives for SMEs to test their mettle globally. A viable testing ground for Singapore SME expansion is Batam, Indonesia, given its proximity to Singapore, comparatively lower costs, and history of involvement with Singapore. If sufficient state-state-firm collusion is established in Singapore, Batam, and Jakarta, it is feasible for government agents and firm managers to confidently project steady flows of new SME direct investment along the Singapore-Batam path, first etched by the Singapore-Riau link of the SIJORI Growth Triangle.

7.3 **Entrepreneurship and the Singapore State**

Lack of entrepreneurship in Singapore is an issue recognized by the government for years. In 1986 the Ministry of Trade and Industry (MTI) acknowledged the city-state’s insufficient small business environment. “We have not yet produced sufficient entrepreneurs in new areas of business, who ceaselessly innovate, experiment, fail, pick
themselves up, and start again” (MTI, 1986, 129). The MTI went on to cite reasons why lack of entrepreneurship prevailed in Singapore.

**Table 7.1**

**MTI Reasons for Lack of Entrepreneurship in Singapore**

<table>
<thead>
<tr>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Omnipresent government, with too dominant a role in the economy;</td>
</tr>
<tr>
<td>Low societal tolerance for failure;</td>
</tr>
<tr>
<td>Strong economy, full employment provides too many societal “safety nets”;</td>
</tr>
<tr>
<td>Most talented businessmen are drawn into high paying public sector or TNC employment;</td>
</tr>
<tr>
<td>Lack of institutional mechanisms to provide potential entrepreneurs with long-term finance.</td>
</tr>
</tbody>
</table>

Source: MTI, 1986

In 1986 the MTI proposed actions that would create an environment more conducive to small business development and risk taking in Singapore. The MTI determined the regulatory environment was discouraging the birth and healthy growth of small and medium sized enterprises. The MTI suggested that SMEs be given breaks by creditors and be provided with time to reorganize and restructure in the event of financial difficulties. Moreover, the MTI recommended reducing taxation on successful firms participating in new ventures. Overall, schemes to encourage entrepreneurship and SME development by the MTI in 1986 revolved around the government reducing losses incurred by entrepreneurs for taking risks (MTI, 1986).

Twenty years later, the SME sector in Singapore remains underdeveloped. Since the inception of Singapore’s developmental state, the ruling People’s Action Party embraced a two-legged development strategy, whereby the business environment is dominated by transnational corporations and government-linked companies. This was done for both political and economic reasons. Small, family-owned enterprises in
Singapore in the post-independence era specialized in trade, commerce, real estate and finance; not industry. With its tiny market and growing population, the PAP selected rapid, export-oriented industrialization as the most appealing path toward economic transformation and job creation. Large government led ventures and TNC foreign direct investment were the means by which such a goal would be achieved most effectively.

It relied on a developmental state working in collaboration with multinational corporations (MNCs) rather than with traditional local Chinese businesses. Such a two-legged GLC-MNC model, rationalized from an apparent lack of local entrepreneurship, also has political economy implications. For instance, it has contributed to the bifurcation in elites, with the English-educated in GLCs and MNCs and the Chinese educated in small and medium enterprises (Low, 2002, 283).

This arrangement between transnational corporations and government-linked companies continued for decades. TNCs and GLCs crowded out small and medium sized enterprises from gaining much ground in Singapore. “...the government has not historically been responsive to the interests of the domestic private sector” (Haggard & Low, 2002, 301). A prime example is the national social security and pension scheme. The high savings rate of the Central Provident Fund (CPF) limits disposable income accessible to potential entrepreneurs; capital which could otherwise be directed toward entrepreneurial activities.

The TNC-GLC two legged model proved highly successful. Singapore’s economy grew at an average rate of over 8.5% from 1965 until the Asian Financial Crisis of 1997 (Hew, 2004, 175). Because of such consistently high growth rates, small and medium sized enterprises continued to be neglected.

The pattern of SME neglect in Singapore is beginning to change. In the wake of the Asian Financial Crisis, the state recognized the need for domestic private sources of
economic growth. In 1997 the Committee on Singapore’s Competitiveness prepared a report on the competitiveness of Singapore’s SME sector. For the purposes of identifying emerging trends for state-firm collusion in Batam, the most important of the committee’s seven chief recommendations pertained to SME regionalization and outward investment. “Accelerate regionalization and globalization drive to broaden customer base and technology sources” (Hew, 2004, 183). The government began to allocate concessions and resources toward strengthening SMEs in the city-state.

Through state-sponsored bodies such as SPRING Singapore and the Economic Development Board, SME support is on the rise in Singapore. Both bodies encourage SMEs to extend beyond the city-state and test their mettle abroad. Batam is a cross-border locale only 20 kilometers from Singapore and historically heavily influenced by the Singapore state and business community. Batam serves as an excellent springboard for the objectives of Singapore government strategists to strengthen the small and medium sized enterprise sector.

7.4 SPRING Singapore and SME 21

SPRING (Standards, Productivity and Innovation Board) Singapore is an arm of the Singapore government devoted to increasing productivity and strength of Singapore’s SME sector. SPRING Singapore began in 1981 when the National Productivity Board (NPB) was assembled to assess productivity levels of domestic firms in Singapore. The NPB merged with the Singapore Institute for Standards and Industrial Research (SISIR) in 1996 to form the Productivity and Standards Board (PSB). At this point, before PSB became SPRING, the board took over the SME development function from the Economic Development Board. SME development went to the PSB after criticisms were directed at
the EDB for neglecting SMEs in favor of concentrating specifically on the interests of transnational corporations in Singapore (Haggard & Low, 2002).

SPRING Singapore’s goals are to increase productivity, competitiveness and growth potential among local Singapore firms. SPRING offers programs on skill development, technology advancement as well as mentor programs for information sharing among SME managers. SPRING also offers programs which arrange loans, grants and tax deductions to improve the city-state’s SME prowess. SME development in Singapore and its ramifications for reinvigorating state-firm collusion in Batam are encapsulated in SPRING Singapore’s SME 21 plan.

SME 21 is an ambitious development plan launched by SPRING Singapore in 2000. The plan is a cooperative effort implemented by the government, chamber of commerce, industry associations, and private sector (Hew, 2004). SPRING recognizes the low productivity and competitiveness levels among Singapore’s SMEs. Similar to the MTI in 1986, SPRING listed reasons for the city-state’s lack of entrepreneurship such as a weak entrepreneurial culture, shortage of professionals, technical manpower, and a small domestic market.

One of the broad, primary goals of SME 21 is “to groom innovative high growth SMEs so that they can compete globally on a sustainable basis” (Hew, 2004, 183). Other goals include increasing productivity in the retail sector, tripling the number of Singapore SMEs with sales turnover of S$10 million or more, and quadrupling the number of SMEs with e-commerce transactions. While bold and widespread, the most important objectives of SPRING and SME 21 for the purposes of state-firm relations in Batam are those which pertain to SME hub promotion; that is, increasing the amount of Singapore SME foreign
direct investment in cross-border destinations such as Batam. SPRING and the Economic Development Board address Singapore-Riau cooperation with the term, ‘economic twinning strategies’.

Both SPRING Singapore and the Economic Development Board promote Singapore-Riau ‘twinning strategies’ as a way to encourage Singapore SMEs to increase competitiveness and simultaneously sustain a path of new investment from Singapore to Batam. One of the six broad-based strategies for SME 21 according to SPRING, is “promoting Singapore as an SME hub” (Standards, Productivity and Innovation Board [SPRING], 2006). The strategy calls for the SME hub in Singapore to effectively execute the following.

**Table 7.2**

<table>
<thead>
<tr>
<th>Singapore SME Hub Strategy</th>
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<tbody>
<tr>
<td>Attract a large pool of foreign SMEs to establish their operations in Singapore and form strategic alliances with domestic SMEs to compete globally;</td>
</tr>
<tr>
<td>Attract innovative start-ups to set-up their operations in Singapore and use it as a springboard to the ASEAN region;</td>
</tr>
<tr>
<td>Take advantage of Singapore’s advanced e-commerce infrastructure to undertake business transactions worldwide.</td>
</tr>
</tbody>
</table>

Source: Hew, 2004

As part of the Singapore as an SME hub strategy, SME 21 entails particular objectives toward state-firm collusion in destinations outside of Singapore. “Economic twinning programmes with other countries identified and pursued to establish areas for SME collaboration” (SPRING, 2006). Economic twinning is also recognized by the
Singapore Economic Board and backed up with specific programs for SMEs interested in shifting operations to locations such as Batam and the surrounding Riau Island province.

Indonesia’s national government continues to create confusing investment conditions in Batam in terms of undecided free trade zone legislation and VAT enforcement. But Singapore’s national government, through the transparent offers of the EDB, provides the following investment incentives to SMEs interested in moving operations to the Riau Islands.

**Table 7.3**

**Singapore EDB Investment Incentives for SMEs in Riau Islands**

<table>
<thead>
<tr>
<th>Incentive</th>
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<tbody>
<tr>
<td>Supports third-party feasibility studies on setting up operations using Singapore-Riau Combination;</td>
<td></td>
</tr>
<tr>
<td>Preferential tax treatment for Singapore-based companies for equipment used in Riau operations;</td>
<td></td>
</tr>
<tr>
<td>Training support for Singapore managers posted to Riau operations, and Indonesia workers trained in Singapore;</td>
<td></td>
</tr>
<tr>
<td>Financial assistance for majority Singapore-owned companies in purchase of productive assets and building of industrial facilities in Indonesia.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Economic Development Board, 2004

EDB officials stand by the Singapore-Riau combination as a viable and attractive arrangement. Combined incentives from the state in Singapore and Indonesia ought to collude with SMEs seeking to test their firm’s capacities on a transnational basis. A Singapore EDB representative in Jakarta firmly supported the Singapore state’s efforts in encouraging SMEs to test transnationalism in Batam. From his standpoint, it is the uncertain Indonesian business climate, as altered by the central government, which is the primary setback to returning to collusive state-firm relations in Batam (L. Lee, personal
Both state and firm representatives acknowledge that there is still an opportunity for reliable flows of new SME investment to enter Batam from Singapore, albeit on a smaller and narrower scale than TNC relocation flows of foreign direct investment during the first phase of SIJORI Growth Triangle industrialization.

Singapore state strategists recreate the Growth Triangle-era path of investment from Singapore to Batam for small and medium sized enterprises in the post-Asian Financial Crisis, post-Suharto era with economic twinning plans and incentives set forth by the Singapore government bodies such as SPRING Singapore. But what are the perspectives of such action by TNC managers currently on the ground in Batam? This question of identifying emerging trends in collusion and rivalry between transnational corporations and the state was posed to the managerial staff of Alpha and Beta Company, and their responses are detailed in the following section.

7.5 Case Study I: Alpha Company

Alpha managers recognize an SME movement underway from Singapore to Batam, and acknowledge Batam’s attraction in terms of price advantage and logistical convenience. “If a company is an SME from Singapore looking to relocate, I believe they will still go to Batam over China or Malaysia” (B. Liau, personal interview, July 22, 2005). At the same time, Alpha does not place itself in the same category. Alpha Company is a powerful TNC with years of experience facilitating operations all over the world. Geographical distance is not an insurmountable obstacle. With operations on six continents, shifting capacitor production from Singapore/Batam and relocating entirely to China is within the realm of logistical possibility. Nevertheless, Alpha managers
recognize Batam’s potential as a launching pad for SMEs seeking to extend operations across national borders.

Alpha’s three year old China plant in Nantong represents the future of capacitor production for Alpha Company in Asia. Alpha moved from Singapore to Batam in 1992 to escape rapidly rising wages and high cost of living in the city-state. Today, cost of land and labor in Singapore remains much higher than Batam, further justifying the 1992 relocation. However, TNC managers in Batam and Singapore assert that costs are much lower in China.

Singapore to Batam is cheap. But Singapore to China is so much cheaper. Eventually Batam operations will be phased out. This is thinking in the long term. In the short term we are not moving because we are thinking about the costs. It costs a hell of a lot of money to move, so right now we are covering our own backsides (A. Pang, personal interview, June 22, 2005).

Alpha operations remain in Batam to cover the sunk cost incurred for moving from Singapore to Batam in 1992, but managers within Alpha Company are already preparing to phase out Batam operations entirely. Profit maximization drives Alpha’s motives, but other factors are considered in the firm’s final calculus on whether or not to stay in Batam.

As illustrated in the previous chapter, Batam’s industrial estates do not manufacture a single niche product. Because of such diversity, neither does Batam produce complementary components to be merged together for final assembly and export. Alpha’s Singapore manager remarked that such a practice is quite common in China, particularly in the manufacturing of electronics. “There is no supporting industry for finished products (motors, parts, etc.) in Batam” (A. Pang, personal interview, June 22, 2005). Price factors are critical, but the misplaced nature of Alpha’s capacitor plant in
Batam also provides the impetus for Alpha to move from Batam and consolidate production in the Nantong plan.

While TNC managers from Alpha do not plan on staying in Batam any longer than it takes to cover the sunk cost of transplanting to Batam in 1992, they also identify a new vision for state-firm relations in Batam, one involving SMEs from Singapore and other newly industrializing countries (NICs). Alpha managers remarked on China edging out Batam for land and labor affordability, but fall short of labeling Batam’s investment attractiveness as obsolete. Logistically, Batam remains a sensible and attractive location for new firms, particularly SMEs.

It is difficult to set up foreign operations with foreign managers in China. In Batam your expat managers can go back to Singapore every week. You can’t do that if you were in China. It’s close to the head offices (B. Liau, personal interview, July 22, 2005).

Alpha managers went on to comment on the difference between TNCs and SMEs in Batam and China. Because of its investment attractiveness, TNCs creating thousands of jobs and injecting large amounts of capital into China’s Special Economic Zones (SEZs) are closely catered to by the state, whereas SMEs find a less amicable environment for undertaking investment because of the small amount of capital and jobs they stand to create. The gap between how large TNCs and SMEs are treated in Batam, according to Alpha managers, is much narrower.

The big companies are going to China. It is easy to operate in China if you are large, you can get lots of help from the government. If you are small or medium sized, you get less help from the Chinese government. In Batam there is less of a difference between how the large companies and the small companies are treated (B. Liau, personal interview, July 22, 2005).
The issue of large TNC preference and less amicable treatment of SMEs in China was expanded upon by the operations manager of Batamindo Industrial Park. Based on his work within industrial estates in Batam and those located in Wuxi, China, the issue of public and private ownership emerges to explain why SMEs are treated more equitably in Batam.

Most industrial parks around the world are government owned. This is the case in China. Not so in Batamindo, it is privately owned and operated. So we cannot give some of the incentives they can give in China, like three years tax free or five years rent free. Governments own and operate industrial parks not so much to earn profit. They do it as a public service. They aim to bring about technology transfer, provide employment and promote security for regional investment. That is what we do, but it is not our objective. We are for profit. We require three months deposit, we can't give all of the incentives that government owned industrial parks can. (C. Lee, personal interview, July 22, 2005).

Alpha managers, with years of experience operating in Singapore and following the SIJORI Growth Triangle model during the 1990s to newly built industrial estates in Batam recognize the state-firm rivalry present in Batam and acknowledge their intention to phase out their Batam facilities for the smoother running operations in Nantong. Nevertheless, experienced managers such as these recognize the unintended yet legitimate attractiveness of Batam for small and medium sized firms headquartered in Singapore.

7.6 **Case Study II: Beta Company**

Similar to the projections of Alpha Company, Beta Company does not foresee a long future for its operations remaining in Batam. The enormous yard and turnkey services offered by Beta are convenient to clients but come at an exorbitant cost.
Nevertheless, managerial staff members within Batam’s Beta Company facility identify a trend away from large transnational corporation inflows, as was the case during the height of Singapore regionalization and state-firm collusion in Batam. In its stead managers acknowledge the movement of Singapore small and medium sized enterprises to Batam and the viable, yet unintended future for SMEs as a springboard to the global economy.

Changes in the business of offshore oil facility production are the chief determinates behind Beta managers predicting their short future in Batam. Rather than designing, fabricating, assembling and transporting offshore oil platforms in one location, the industry has moved toward piecemeal production of platforms, each task taken up by a different outfit. By offering all services from beginning to end, Beta Company’s Batam facilities are losing ground to the competition.

China, Malaysia and Thailand are opening up under the new subcontracting model. That makes it difficult for this yard, which is all turnkey, to maintain an edge. We have to decrease wages but also increase efficiency to lower costs. In 5-7 years this yard is going to be completely priced out by my guess (M. Jeffers, personal interview, July 15, 2005).

In the previous chapter, Beta Company managers specifically targeted their intimate and collusive relationship with the central government in Jakarta, and how issues such as tax exemption were manageable, even when it was necessary to go over the local government in Batam. In the same vein, Beta managers had very clear reasoning as to why large transnational corporation investment was not making inroads to Batam in the post-Asian Financial Crisis era.

Bureaucracy! There are so many different departments to deal with, and there is corruption at each. Government needs single
service department to handle all of the needs for investors looking to set up. They say there is one stop service, but there isn’t. There needs to be one stop, one roof service (A. Walewangko, personal interview, July 15, 2005).

Risk and uncertainty are the paramount reasons for the drop in new large TNC investment in Batam, according to the Beta Company. While Beta managers recognize the lack of appeal to relocate production in Batam by large TNCs, they also concede that Batam holds certain conditions which may be quite lucrative to smaller firms from Singapore. When asked about a new trend of SMEs moving from Singapore to Batam as part of a government initiative, Beta managers acknowledged that there is a future for SMEs in Batam, at least a meanwhile future.

Beta managers assert that all foreign direct investment roads lead to China. However, as far as gaining international experience and escaping high wages for manufacturing in Singapore, Batam is a useful destination for SMEs.

For SMEs, Singapore makes this location (Batam) attractive enough. It has cheaper labor, at least for a little while. If the company is smaller and can transplant down the road to China if necessary, then Batam is attractive. But this is only temporary, operating in Batam. The overflow from Singapore, while good is not sustainable because it will inflate the labor cost... Batam is attractive for human reasons. Small companies are having difficulty sending expats to work in places like China. It’s too far (M. Jeffers, personal interview, July 15, 2005).

7.7 Case Study Consensus

While operating in different sectors of the economy and having different histories in Batam, consensus can be found among Alpha and Beta Company manager responses in terms of identifying trends in the relationship between firms and the state in Batam. The collusive period of state-state-firm cooperation from national governments in
Singapore and Indonesia and large transnational corporations has come to a close in Batam. The Asian Financial Crisis prompted government agents in Singapore to steer away from Growth Triangle-type regionalization, and democratization in Indonesia weakened the power and decision-making of local development authorities such as the Batam Industrial Development Authority (BIDA). Both Alpha and Beta predict their large TNC branches in Batam will relocate in the near future to more profitable destinations such as China for their labor intensive manufacturing. The managers point to inaction and confusing bureaucracy on the part of the central government in Jakarta for state-firm rivalries and subsequent relocation by large TNCs, as well as an absence of new large TNC foreign direct investment inflows.

Both Alpha and Beta agree however, on a new, unintended consequence from the periods of collusion and rivalry between transnational corporations and the state in Batam. Adequate infrastructure, proximity to headquarters in Singapore, and a long history of Singapore state involvement across an international border create an attractive setting for a movement by Singapore’s government to strengthen the city-state’s small and medium sized enterprise sector. Furthermore, even with rising costs in labor and land, Batam still edges out Johor Baru in terms of cost advantage for firms considering relocation from Singapore. Batam as a strategic destination for the regionalization of Singapore SMEs and a springboard to globalization is a trend identified by Alpha Company, Beta Company, and Singapore government bodies such as SPRING Singapore and the Economic Development Board.

The Ministry of Trade and Industry has reported the SME sector to be underdeveloped since the 1980s, but only recently have other bodies such as the
Economic Development Board promoted strengthening the international capacities of SMEs through relocation in the Indonesian island of Batam. Indeed, statistics on foreign direct investment inflows to Batam substantiate this recent trend. Total capital investment inflows in Batam are decreasing, as are the number of incoming firms. Incoming firms, predominately from Singapore, are SMEs operating in a support capacity to current large TNCs in areas such as product packaging. The capital investment is much smaller than large TNCs of years past, and the average number of workers per company is also smaller than years past, echoing a statement made by a Beta Company manager. “You don’t see 3000 employee operations moving here anymore, but I bet you see a lot of 50 to 80 ones” (M. Jeffers, personal interview, July 15, 2005). The average investment value of a company in Batam has fallen by 33.7% between 2000 and 2004. Furthermore, the average number of employees in newly investing firms has also fallen each year between 2000 and 2004. The average total number of workers in a new firm operating in Batam fell from 222.4 to 90.5 in only five years (BPS, 2005). With each passing year, the profile of investment in Batam from Singapore looks less like the TNC relocation from the first collusive phase of industrialization, and more like a new trend of SME regionalization; strongly supported by bodies within Singapore’s government and accommodated to as much as possible by local investment authorities in Batam.
Chapter 8

Conclusion

The Singapore government unveiled a regionalization program in 1989 popularly known as the Singapore-Johor-Riau (SIJORI) Growth Triangle. The regionalization program brought about the rapid industrialization of Batam, Indonesia with the ardent support of government bodies in Singapore and Indonesia, as well as transnational corporations relocating labor intensive operations. During the first phase of Batam’s industrialization under the SIJORI Growth Triangle scheme, the Singapore Economic Development Board and government linked corporations spearheaded the development and management of reliable industrial estates in Batam, the paramount project resulting in the self-sufficient Batamindo Industrial Park in the center of the island. The Indonesian government contributed to collusion during this first phase by spelling out attractive investment incentives for incoming foreign direct investment from transnational corporations. During this first phase hundreds of TNC relocated labor intensive manufacturing operations to Batam, making the near seamless transition from Singapore with the assistance of the government in both the city-state and in Indonesia.

The state-state-firm relationship among governments in Singapore and Indonesia and transnational corporations in Batam has changed significantly. In the wake of the Asian Financial Crisis, democratization in Indonesia, and a greater stress on globalization over regionalization for TNCs as expressed by the Singapore national government, state-firm relationships in Batam have shifted more toward rivalry than collusion. The number of new investment projects fell, and once blazing amounts of foreign direct investment
slowed down, much to the dismay of Batam’s local investment authorities. Case study firms Alpha and Beta Company point to uncertainty and inaction on the part of the central Indonesian government; a government that has taken favored status away from Batam’s local investment authorities in the post-Suharto era. Central to the inaction and uncertainty is the ongoing debate over whether the government in Jakarta will pass free trade zone legislation in Batam, creating greater advantages and perhaps more importantly, certitude, to both currently embedded and potentially new transnational corporation investment. In the meantime, many TNCs in Singapore express a “wait and see” attitude toward moving labor intensive operations to Batam.

TNCs remain hesitant toward relocating production facilities in Batam. At the same time, case study firm managers and representatives within the Singapore national government point to new and unintended consequences of regionalization efforts on the part of the state and transnational corporations during the 1980s and 1990s. A new trend, one beyond the two phases of collusion and rivalry is emerging on Batam’s economic scene.

Historically underdeveloped small and medium sized enterprises from Singapore are making a foray into the Batam foreign direct investment scene. SMEs from Singapore are encouraged by the government to regionalize and test their mettle across a national border, hopefully in a step toward becoming more transnational and ultimately strengthening the home economy in Singapore. The Singapore government has created incentives to encourage SMEs to continue this trend and practice operations across a national border in a close, low-cost, and historically Singaporean business community influenced location such as Batam. The flow of SMEs into Batam from Singapore in the
near future, and their movements globally thereafter are certainly grounds for future research.

Today, exports from Batam constitute approximately 14% of Indonesia’s national non-oil and gas exports (BIDA, 2004). Even during periods of state-firm rivalries, Batam retains its importance as an island whose infrastructure is deliberately designed to service export-oriented firms. The inaction on the part of the Indonesian national government to expedite free trade zone legislation perpetuates rivalries between transnational corporations and the state, but new trends of SME investment prove that Batam Island remains an importance place where collusion and success can be found.
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