

## **POLICY DESIGN OF THE REGIONAL AND CENTRAL GOVERNMENT FOR THE DEVELOPMENT OF MANDALIKA SPECIAL ECONOMIC ZONE (SEZ)**

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### **ABSTRACT**

The Special Economic Zone (SEZ) is one of the government's industrial development policy. The Government established fifteen SEZ, and Mandalika Tourism SEZ is one of them. However, Mandalika's performance was far from satisfactory. This study aimed to analyze the regional and central government's policies in supporting the performance of Mandalika SEZ. This study used a qualitative approach by conducting interviews and focus group discussions of the stakeholders. The study found several aspects that need more attention from the government: the certainty and ease of providing incentives, community support, preparedness of organizations and institutions, and special Online Single Submission (OSS) within the SEZ. The study recommended that the Ministry of Home Affairs and regional government should optimize the policies of the regional government in supporting the SEZ, such as the provision of guidelines on the central-regional incentives, affirmative actions (mainly in the empowerment of the local community), SEZ administrator institution, adjustment to the SEZ OSS that involves many regional permits, and the development of supporting areas.

**Keywords:** Special Economic Zone, tourism, Mandalika, government policy

### **ABSTRAK**

Kawasan Ekonomi Khusus (KEK) merupakan salah satu kebijakan pembangunan industri pemerintah. Pemerintah menetapkan lima belas KEK, dan KEK Pariwisata Mandalika adalah salah satunya. Namun, kinerja Mandalika jauh dari kata memuaskan. Studi ini bertujuan untuk menganalisis kebijakan pemerintah daerah dan pusat dalam mendukung kinerja KEK Mandalika. Penelitian ini menggunakan pendekatan kualitatif dengan melakukan wawancara dan diskusi kelompok terfokus kepada para pemangku kepentingan. Studi tersebut menemukan beberapa aspek yang perlu mendapat perhatian lebih dari pemerintah: kepastian dan kemudahan pemberian insentif, dukungan masyarakat, kesiapan organisasi dan lembaga, serta penyediaan Online Single Submission (OSS) khusus di dalam KEK. Kajian merekomendasikan agar Kemendagri dan pemerintah daerah mengoptimalkan kebijakan pemerintah daerah dalam mendukung KEK, seperti pemberian pedoman tentang insentif pusat-daerah, tindakan afirmatif (terutama dalam pemberdayaan masyarakat setempat), Kelembagaan pengelola KEK, penyesuaian dengan KEK OSS yang banyak melibatkan perizinan daerah, dan pengembangan kawasan pendukung.

**Keywords:** Kawasan Ekonomi Khusus, pariwisata, Mandalika, kebijakan pemerintah

**BACKGROUND**

The search for an ideal form of economic development in Indonesia began in 1970 by establishing Free Trade Zone and Free Port (*Kawasan Perdagangan Bebas dan Pelabuhan Bebas/KPBPB*) (Damuri, Yose Rizal; Christian, David; Atje, 2015, p. 13). Since then, Indonesia has continued to develop the concept of economic areas, such as Industrial Estates (*Kawasan Industri/KI*) in 1989, Integrated Economic Development Zones (*Kawasan Pengembangan Ekonomi Terpadu/KAPET*) in 1996, and lastly, the development of Special Economic Zones (SEZ) in 2009. (Yesuari, 2014, p. 1). Specifically for tourism, the government has established a Tourism Priority Destination (*Destinasi Prioritas Pariwisata/DPP*) area, known as the 10 New Bali in 2016. Officially, as stated in the 2020-2024 National Medium Term Development Plan (RPJMN), the special area development consists of SEZ, KPBPB, KI, and DPP.

The terms were mentioned in Law No. 25 of 2007 on Investment. SEZ is regulated in Chapter XIV Article 31. The article states that the SEZ is intended to accelerate economic development in strategic areas and maintain the balance of regional development. Law strengthened the SEZ policy No. 39 of 2009 concerning Special Economic Zones, along with supporting regulations in Government Regulations, Presidential Regulations, Presidential Decrees, and several Ministerial Regulations to support the performance of SEZ.

Previous studies related to the Special Economic Zone mostly focused on the SEZ performance in the industrial SEZ, although the tourism SEZ is also expected to

drive economic development. Indonesia had fifteen SEZ in 2020. Eleven are in operation while four are still in the development stage. There are seven SEZ declaring tourism as their main operations; however, only five are in operation (Sei Mangkei, Tanjung Kelayang, Tanjung Lesung, Mandalika, and Morotai). The other two, Likupang and Singhasari, are on the stage of "ready to operate."

The local community's confidence toward the benefit of the SEZ is quite high. According to the local community, the Sei Mangkei SEZ would reduce the unemployment rate (Lingga & Pratomo, 2013, p. 16). On the other hand, a study concluded that the relationship between the community and the Banten provincial government in Tanjung Lesung SEZ is minimal. (Mukhroman & Gumelar, 2013, p., 211). The SEZ development performance has also drawn some criticism, such as in the SEi Mangkei SEZ area, which has a positive impact on infrastructure growth in the form of electricity. However, almost one year since the SEZ operating, there has not been any additional length of electricity cable deployed. (Hariani, 2014, p., 32). While in terms of institution, the Regional Council for Special Economic Zone (the Regional Council) has not performed effectively (Meliana & Buchori, 2016, p. 59). The Communication Model of the Regional Council is still limited in promoting the SEZ, as such a better and more creative marketing communication design is needed (Mukhroman, Gumelar, & Ahmad, 2014, p. 179). In the triple helix analysis framework, the Regional Council for Special Economic Zone's role is also less than optimal. This is indicated by the

Provincial Government's minimum contribution and commitment to exercising its authority in the SEZ Council (Suheri & Aulia, 2017, p. 54).

International experience also suggests that central and regional institutional architecture's quality is one of the supports for the SEZ performance (Wong & Buba, 2017, p. 42). The role of regional governments, such as exempting regional taxes for ten years, is one factor supporting the progress of investment in the SEZs (Akhmetshina, Guzelbaeva, & Rakhmatullina, 2017, p. 349). The Regional Government's role is important because the regional government has a unique strategy in inviting overseas skilled workers to work in the SEZ. Regional governments use the SEZ as an instrument to integrate economic engines in the region, for example, developing trade interconnections and integrating the production of goods and services between regional elements (such as BUMD, local Micro, Small, and Medium Enterprises) and foreign investor operating in SEZ. Government reforms in trade and licensing are also a major attraction for foreign investors to invest in the SEZ. (Zhihua Zeng, 2019, p. 14). Simply put, Regional Governments are believed to have a better understanding of their territory and ways to develop their SEZs, including promoting them to prospective investors. (Moberg, 2014, p., 174). The head of regions may also play a role in inviting foreign investments by using a thematic and integrated regional branding (Sosnovskikh, 2017, p. 186). However, the regional government may also produce adverse impacts, for example, in the form of unfulfilled business promises

between investors, local governments, and the Business Development and Management Agency (BUPP) (Sosnovskikh, 2017, p. 187).

In the implementation of SEZ in Indonesia, the regional governments' contribution to providing land is not optimal. This can be seen from the slow land acquisition for the Tanjung Api-API SEZ and the Moto GP circuit land in the Mandalika SEZ. The regions are also not creative in providing attractive investment package to boost the investment climate. There is no clarity regarding the various incentives promised in the SEZ development plan and the institutional coordination in supporting the SEZ business. (Damuri, Yose Rizal; Christian, David; Atje, 2015, p. 24).

There are also some criticisms on the central government's contribution, especially the optimization of SEZ management and the incentive schemes by statutory provisions (Adam, 2019, p. 49). The collaboration between the regional and central governments in developing the SEZ development policy is also criticized. Their collaboration must produce strong compatibility and commitment to advance the SEZs through a Master Plan (Chen, 2019, p. 64). Although SEZ is a Central Government program, regional governments' contribution is clearly quite crucial and covers a variety of areas. This study focused on regional government policy related to SEZ.

Provincial and district government policies in the Mandalika SEZ face many obstacles, such as unclear land status issued in the early stages of the Mandalika SEZ development (Aulia, 2018, p. 39). The

unavailability of supporting facilities still hinders the development of Mandalika SEZ. The regional governments should be more involved in the SEZ development due to their role as the regional council, the administrator, or the technical regional apparatus. Regional governments can encourage inter-regional connectivity, public road lighting, and access to clean water and electricity (Adam, 2019, p. 46).

A decade after the enactment of Law No. 39/2009 concerning Special Economic Zones, it is imperative to examine the policies that have been taken by regional governments to drive the development of the SEZs. Also, which regional policies can be optimized to drive the SEZ development, including the necessary resources and capabilities, this study problem was the role of regional government in supporting the development of SEZs, with elaboration on: (i) what is the role of local government in supporting the development of SEZs; (ii) what are the obstacles and challenges faced by local governments to optimize SEZ in supporting regional economic progress; (iii) the extent of the role of the Ministry of Home Affairs in its membership in the SEZ National Council; and (iv) which policies from the central and regional government that needs to be implemented to improve the development of SEZs.

This study draws on experience from the Mandalika SEZ with four considerations: (i) The Mandalika SEZ has been operating for around three (3) years thus it is interesting to see the dynamics in the SEZ; (ii) the Mandalika SEZ, only focus on the tourism sector; and (iii) the Mandalika SEZ developed by PT Indonesia

Tourism Development (Persero) which has experience in developing Nusa Dua Bali; and (iv) the planned Motor GP event at the Mandalika SEZ circuit so that the acceleration of the development of the Mandalika SEZ will receive more attention from the central and regional governments.

## **METHOD**

This study used a descriptive method with a qualitative approach. The descriptive method was used since it allowed the researcher to analyze the regional government's process in implementing its policies. This study was conducted for one month (February to March 2020). The data collection techniques were in-depth interviews, and secondary data was collected from government institutions and mainstream mass media. Data were analyzed using triangulation techniques to obtain synthesis between the data (Creswell, 2014)

The sources were purposively chosen. Representatives from the Directorate General of Regional Administration of the Ministry of Home Affairs: Director of Urban Area, Zone, National Border, Head of Sub-Directorate of Scope I, and Head of Regional Section IA. Policymakers from the SEZ National Council consisting of the Head of the Information Section and the Person in Charge of the Mandalika SEZ; elements of the Regional Government consisting of the West Nusa Tenggara Provincial Government and Mandalika District Government. At the provincial level, one person was selected from the Bappeda of West Nusa Tenggara Province, namely the Head of Research and Development, which

took part of the initiation stage of the Mandalika SEZ while serving as the Head of the Regional Economic Sector and active in the Regional Council, and two from the West Nusa Tenggara Provincial Tourism Office (the Head of Promotion and Head of Subdivision). The Central Lombok District Government: The Head of the Central Lombok Regional Development Planning Agency and the BPMPTSP *ex-officio* SEZ Administrator of Central Lombok District consisting of the Head of the Agency, Head of Section, Head of Subdivision (SEZ Licensing Information System Officer). From the Business Entity: BUPP PT.

ITDC which consists of Commissioners and Senior Staff of the Marketing and Investment Division. The

views of LIPI Economic Research Center Researchers were also included to represent the academic view. In addition to in-depth interviews with these sources, a Focused Group Discussion was also conducted at the Ministry of Home Affairs BPP Office, on March 12, 2020, with SEZ National Council daily officers (officials in Bappeda West Nusa Tenggara Province) and Acting Head of Central Lombok District Tourism Office.

## RESULTS AND DISCUSSION

### Development of Mandalika SEZ

The Mandalika SEZ is determined as a Special Economic Zone and the 10 New Bali Tourism Priority Destination (DPP) because of the geographical characteristics of Mandalika, which is close to Lombok International Airport.

Picture 1 SEZ Mandalika



Source: Copyright SEZ National Council, 2019

There are many panoramic attractions of the Mandalika SEZ, such as Kuta Beach, Tanjung Aan Beach, Bukit Maresa, and Mawun Beach. Tanjung Aan Beach is ranked in the top 10 most beautiful beaches in the world-famous tourism

channel, TripAdvisor. In 2015, Mandalika SEZ received World Best Halal Tourism and World Best Honeymoon at the World Halal Travel Summit in Abu Dhabi, United Arab Emirates. This achievement has encouraged the NTB Provincial

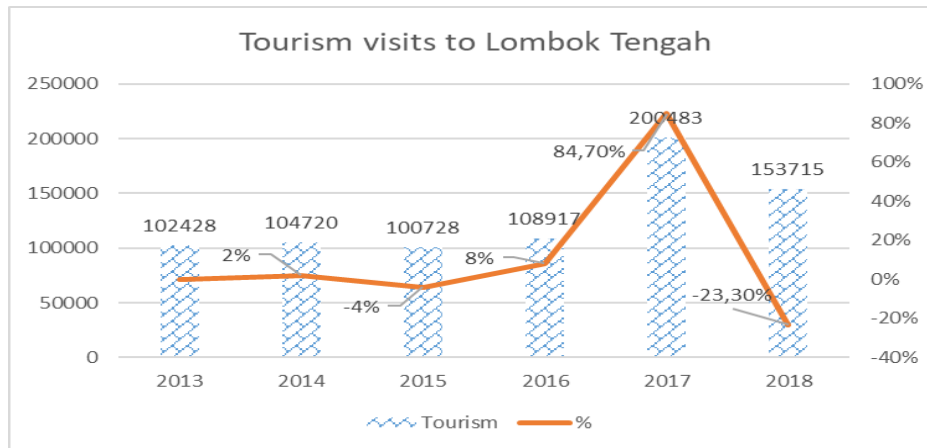
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## Government to form Regional Regulation

## No. 2 of 2016 on Halal Tourism.

Picture 2 Graph of Tourist Visits in Central Lombok (2013-2018)



Source: Lombok Tengah Dalam Angka, BPS. Processed, 2020

Initially, in the 1980s, the Mandalika area was to be managed by PT. Elmar as an exclusive tourism area. However, PT. Elmar disagreed with the capital and land acquisition matters. Based on Government Regulation Number 50 of 2008 and Government Regulation Number 33 of 2009, the management of the SEZ is granted to PT Bali Tourism Development Center (BTDC). The company has the right to manage the Mandalika area in Central Lombok with an area of 1,175 hectares. PT BTDC changed its name to PT. Lombok Tourism Development Center (LTDC), and finally PT Indonesia Tourism Development Center (ITDC). PT. ITDC used the policy regulated by Law No. 39 of 2009 concerning Special Economic Zones, Based on the Law, PT ITDC proposed the Mandalika Zone as an SEZ and was officially granted through Government Regulation No. 52 of 2014 concerning

Mandalika Special Economic Zones, Since its establishment in 2014, tourist visits to Central Lombok District increased by 8% in 2015, and a jump by 84% when it is started its operation in 2017. However, in mid-2018, an earthquake hit Lombok and decreased tourist arrivals in Central Lombok district by approximately -23%. The Central Lombok district government was processing the 2019 tourist visit data at the study time. The picture above shows that, from its establishment in 2014 to its operation in 2017, the Mandalika SEZ positively impact the trend of tourist visits to Central Lombok District. However, it suffered a decrease of 4% in 2015 and 23% in 2018. The growth of tourists visiting Central Lombok District had an extraordinary jump from an increase of 8% in 2016 to 84.7% when the Mandalika SEZ started its operation in 2017. Based on Figure 2, the decrease of 23% in 2018 was

understandable because the Mandalika SEZ was one of the areas affected by a devastating earthquake that struck the West Nusa Tenggara Province. With that decrease, the number of tourists visits still amounted to 153,715 tourists, or greater than the years before the SEZ development, which approximately only 102,000 to 104,000 tourists.

The data shows that Central Lombok's Own-Revenue (PAD) increased from around Rp 166.4 billion in 2016 to Rp293.3 billion in 2017 or 76%. In 2018, the PAD decreased significantly, to around Rp70 billion or a decrease of 76%. This decrease was caused by natural disasters that struck the Province of West Nusa Tenggara. The Open Unemployment Rate (Angka Pengangguran Terbuka/APT) in Central Lombok District also decreased. In 2015, the Central Lombok APT was 9.92% per year, while in 2017, when the SEZ started its operation, the Central Lombok APT was 3.83% per year or decreased by 6.139%. In 2018, when the earthquake struck, the Central Lombok APT was 2.72% per year, decreased by only 1.11%. These facts supported the community's belief that SEZ is the answer to their employment problems. (Lingga & Pratomo, 2013, p. 16)

The key institutions involved in the Mandalika SEZ development are the SEZ National Council, the SEZ Regional Council, the SEZ Administrator, and PT. ITDC as the Business Development and Management Agency (BUPP). All parties cooperate successfully and attracted 17 business entities to invest in the Mandalika SEZ.

With a 100% clean and clear land status at 1,208 hectares, the Mandalika SEZ

is ready to operate. The Mandalika SEZ has three zones: core zone 1 (1,035.67 hectares), core zone 2 (3,762 hectares consisting of 6 villages), and a buffer zone (23,339.1 hectares). Sixteen buffer villages in the buffer zone need to be built in harmony with the Mandalika SEZ development. Without the buffer zone's progress, it is difficult to have the consistency of progress in the Mandalika SEZ.

The most important issue for the advancement of SEZs is the preparation of human resources. The Lombok Tourism Polytechnic was established in Central Lombok District to address it.

### **The role of regional government in supporting the development of SEZs**

In providing infrastructure within the region, the regional government contributed by providing 10 parking spaces in the public tourism area. The funding uses the Central Government Budget (APBN), the West Nusa Tenggara Province Budget (APBD), and Central Lombok District APBD.

### **West Nusa Tenggara Provincial Government**

West Nusa Tenggara Province has determined the tourism sector as the main theme of regional development according to what is stipulated in Regional Regulation No. 1 of 2019 concerning the Medium-term Regional Development Plan for the Province of West Nusa Tenggara for 2019-2023. In the regional planning document, the Mandalika area was designated from the beginning of a tourism area. This was stated in the West Nusa Tenggara Province Regulation on RT RW 2009-2029 and

Regional Regulation No. 7 of 2011 on RT RW of Central Lombok District, that the Mandalika area (Kuta and Surrounding Areas) is a provincial and district strategic area, with the identified leading sectors of tourism, industry, and fisheries.

The Government of West Nusa Tenggara Province has also issued Regional Regulation No. 8 of 2016 concerning Facilities and Convenience of Regional Taxes and Regional Retribution in the Mandalika Special Economic Zone. Business Entities and Entrepreneurs conducting business in the Mandalika SEZ were given a reduction, relief, and exemption of the Regional Tax and Regional Retribution (PDRD). The PDRD facilities included, among other things, Motorized Vehicle Tax, Motorized Vehicle Transfer Fee Duty, Surface Water Tax, and Retribution on IMTA Extension.

The regional government's focus was not only in the development inside the SEZ area but also on the buffer zone around the Mandalika SEZ. The development in the buffer zone is important because without developing the buffer zone, the regional economy will lose the surrounding carrying capacity. The gap between the areas will potentially be widened (Rothenberg, Bazzi, Nataraj, & Chari, 2017, p. 11). Bappeda of West Nusa Tenggara Province is developing 99 Tourism Priority Villages, 16 of them located in Central Lombok District, and 6 of them are the SEZ buffer villages, including Kuta Sengkol Village, Rembitan Village, Mertak Village, Selong Belanak Village, and Mekarsari Village.

From the workforce side, Bappeda West Nusa Tenggara Province has coordinated a special certification program

for prospective workers who will work in the SEZ Zone to be conducted by the Manpower Office. The Tourism Polytechnic established by the Central Government is also ready to produce high-quality Tourism Human Resources. This is important since the Human Resources and the Region's potential must support one another (Aggarwal, 2019, p. 41).

### **Central Lombok District Government**

During the initial stage, Central Lombok District Government responded positively to the proposal of PT. ITDC as the Proposing Business Entity with a recommendation from the NTB Provincial Government, by issuing the Central Lombok District Decree No. 513a of 2014 on the appointment of ITDC as the Manager of the SEZ. The proposal was accepted, and PT completed the requirements. ITDC, so that the Mandalika SEZ is officially established through Government Regulation. 52 of 2014 concerning Mandalika Special Economic Zones, After that, the Mandalika SEZ Regional Council was officially formed based on Presidential Decree No. 46 of 2014 and Decree of the Governor of West Nusa Tenggara No. 705-105 of 2017, with the Head of Bappeda of West Nusa Tenggara Province as the chairman. The Administrator of the Mandalika SEZ is regulated with Central Lombok District Head Decree No. 512.a/2014 concerning the Establishment of the BPMPTSP as the Administrator of the Mandalika SEZ in Central Lombok District. The Mandalika SEZ administrator is an ex officio the head of the Central Lombok District's One-Stop Investment and Services Agency (BPMPTSP).



The government delegated 124 licenses to the SEZ Administrator. The regional government delegated 116 types of licenses, including 48 types of licenses at the district level with the Central Lombok District Regulation No. 3 of 2017 dated January 23, 2017, and 68 types of licensing at the provincial level with West Nusa Tenggara Governor Regulation No. 502-12 / 2017 dated February 20, 2017. The central government delegated 10 Licenses, including 8 types of licenses from the Indonesian Investment Coordinating Board, and 2 types of licenses from the Indonesian Ministry of Trade. However, the delegation of licenses to the SEZ administrators is not always done equally and running smoothly. For example, some SEZ administrators in other regions did not receive the same number of licensing delegations as the Mandalika SEZ administrators. There were also differences in licensing procedures. For example, for the Mandalika SEZ, some licenses still require partial technical recommendations from the relevant regional apparatus.

The Central Lombok District Government also issued several other decrees to support the performance of the Mandalika SEZ: (I) Decree of the District Head of Central Lombok District No. 534 of 2013 dated 10 December 2013 concerning the Support Team for the Acceleration of the Development of the Mandalika Resort Area in Pujut District, Central Lombok District, NTB Province in 2013; (ii) Decree of the District Head of Central Lombok No. 56 of 2016 concerning the Formation of a Coordination and Consultation Team to Support the Acceleration of the Development of the SEZ and the Mandalika

Lombok Tourism Area (KPML); (iii) Decree of the District Head of Central Lombok No. 57 of 2016 concerning the Establishment of the Integrated Security Task Force on SEZs and the Mandalika Tourism Area (KPML) of Central Lombok District; and (iv) Decree of the District Head of Central Lombok No. 156 of 2019 concerning the Establishment of a Task Force Supporting the Acceleration of Development and Development of Mandalika SEZ Central Lombok District 2019. The issuance of a series of district head decrees improved the coordination between the Regional Government and the BUPP of PT. ITDC. The good performance was also because of the familiarity of the BUPP management of PT. ITDC, which is quite familiar with the locality in the Kuta Mandalika area, accelerated land acquisition performance due to a series of policies issued by the District Head of Central Lombok.

The Bappeda of Central Lombok District and the Ministry of PUPR were also preparing National Priority Villages in the surrounding area of the SEZ. This policy is important, considering SEZs' impact can be seen up to a radius of 50 km (Frick & Rodríguez-Pose, 2019, p. 76).

### **Regional Government Challenges for the Promotion of SEZs**

This section examined the regional governments' challenges to advance SEZs for regional development, by using incentives, community support, organization and protection, and the implementation of Online Single Submission (OSS).

**Regional Incentives**

Projects such as SEZs are usually strengthened with facilities or incentives, including regional incentives and even regional tax exemptions, believed to support the progress of SEZs (Akhmetshina et al., 2017, p. 349). Based on legislation, incentives that can be provided in the Mandalika SEZ project can be provided by the central and regional governments. The procedure is regulated in Government Regulation No. 96 of 2015 concerning Facilities and Incentives in the SEZ. The Government of West Nusa Tenggara Province has also issued Regional Regulation No. 8 of 2016 concerning Facilities and Incentive in Regional Taxes and Regional Retribution in the Mandalika Special Economic Zone. However, according to the regional consultation report of the Ministry of National Development Planning/ National Planning Agency (Ministry of PPN/Bappenas), the procedure for using the regional incentive was not regulated in detail, which makes it difficult to implement. PT. ITDC also stated that the reduction of BPHTB fee was not consistent in the Special Economic Zones. On one business opportunity with a particular business entity was granted the reduction of BPHTB fee, but other business entities are not given the reduction on another occasion. The lack of clarity of incentive schemes is a common problem in SEZ management (Damuri, Yose Rizal; Christian, David; Atje, 2015, p. 24).

**Support of the Local Community**

Rejection for the construction of the Mandalika SEZ by the local communities occurred on several occasions. Land

acquisition for economic purposes is indeed a major problem in almost all regions in Indonesia. Several cases of local community resisted the construction of the Mandalika SEZ, including the rejection of the use of land in Kuta Village for the construction of the Moto GP circuit.

The regional leadership communication forum (Forkompimda) helped to mediate the issues. The Forkompimda produced communications that can reduce community resistance. Also, various CSR programs and affirmative actions were conducted, such as the collaboration of PT. ITDC and Central Lombok District Government for constructing a local market or bazaar for the local MSMEs. The core of the local community's issues was unclear allotment of a piece of land that was designated as public-owned land and was converted to be the land for Moto GP circuit development. Some parties argued that the Moto GP circuit is not in the public interest and the entity (PT. ITDC) is a business entity, not a government entity, as such, it cannot use the provisions in Law No. 2 of 2012 concerning Land Procurement for Development in the Public Interest.

Community resistance also occurred when the Mandalika SEZ implementation requires bus transportation networks to and from the Mandalika SEZ. The Ministry of Transportation has planned that the Mandalika SEZ will be supported by four routes to and from the Mandalika SEZ, including the Mandalika SEZ-Lembar Port, BIL-Mandalika SEZ, Lombok Epicentrum Mall-Mandalika SEZ, and Bangsal-BIL. Some community groups rejected bus routes. As a result, only the

Bangsas-BIL route was still operational at the time of the study because it was relatively free from community group restrictions.

### **The Organization and Institutions of the SEZ Administrators**

Since officially operating in 2017, the Mandalika SEZ had attracted 17 investors in the Mandalika SEZ project, with a total investment commitment of 2,306 rooms and an investment value of approximately Rp4 trillion. However, the SEZ Administrators had some limitations in managing permits, either the ones originating from the Central Government since it required extra learning or the ones originating from regional governments because they were also rather complicated. Some permits require technical recommendations from the relevant regional apparatus, which means that the permit process cannot be fully handled directly by the SEZ Administrator.

The Central Lombok District Government originally planned that the Mandalika SEZ administrator would become a separate regional apparatus. However, the plan was hampered by the provisions in Government Regulations No. 18 of 2016 concerning Regional Apparatus Organizations, limiting the typology of organizations in the region to several types of organizations (not including special organizations such as the SEZ administrators).

Practically, the performance of SEZ administrators is equated with the performance of the Central Lombok District BPMPTSP. The SEZ administrators were also not supported by additional

performance incentives for the employees, such as regional performance allowances that conventionally apply to Regional ASNs. The SEZ Administrator's job did not stop at the grant of the permit but also to supervise and control the operation of permits in SEZ. Moreover, there are various types of permits that administrators need to manage.

### **The OSS system did not have a specific identifier for SEZ.**

The government has a monumental policy to support Indonesia's acceleration, which was issued in various economic policy packages. The Online Single Submission system is one of the concrete results of the policy. Simply stated, the OSS is an integrated information technology system for the application of business licenses. Various documents related to permitting such as Deed of Establishment and its validation and approval, Tax Number, Company Registration Number, Foreign Worker Employment Plan, Foreign Worker Employment Permit and Custom Access.

However, in the meantime, there is no specific identification for conducting SEZ permits through OSS; licensing tends to be treated the same as licensing outside SEZ. Some facilities in the SEZ cannot be listed on the OSS system. The OSS system is proven to accelerate licensing in general, but unfortunately, there is no specific identifier to support the ease or incentive provided in the SEZ policy. When an investor registers his business at the Mandalika SEZ, there is no special menu available for the Mandalika SEZ in the OSS system application dashboard.

**The Role of The Home Affairs Ministry**

SEZ also regulated in Law No. 23 of 2014. Regarding the institutional role of the Ministry of Home Affairs, it issued Permendagri No 43 of 2015 concerning the Ministry of Home Affairs Organization and Work Procedures, which mandates the Directorate of Zone, Urban areas, and State Boundaries at the Directorate General of Regional Administration Supervision to implement Special Economic Zone. The directorate is an echelon II level with a sub directorate of special area scope I. The sub directorate is an echelon III level with two-echelon IV sections, area IA and area IB. The phrase "Special Economic Zones: is attached to Sub Directorate of special area scope I.

Law also mandates the Ministry of Home Affairs No. 39 of 2009 and Presidential Regulation No. 33 of 2010 as a member of the SEZ National Council with the Directorate General of Regional Administration Supervision as one of the implementing team. At the moment, the regulative policies issued by the Ministry of Home Affairs are regulations that generally govern permits, regions, and borders, following the stipulation on Government Regulation No. 28 of 2018 on Regional Government Apparatus, Government Regulation No. 33 of 2018 concerning the Implementation of the Governor's Duties as Representatives of the Central Government, Permendagri No. 116 of 2017 on Regional Government Apparatus, Government Regulation No. 138 of 2017 on Regional One-Stop Integrated Service (PTSP). Nothing was specifically formed to support the implementation of the Special

Economic Zone policies. The SEZ policy interventions in the regions were varied, not only emphasizing regional aspects (which was the main authority of the Directorate-General of Regional Administration Supervision of the Ministry of Home Affairs), but also the regional financial aspects, the implementation of programs and activities, and the organization of regional apparatus.

At the time of the study, the SEZ management's guidance under the coordination of the Directorate General of Regional Administration Supervision has a limited policy structure and substance. As a comparison, as a member of the SEZ National Council, the Ministry of Tourism, which only focuses on coordinating tourism development in Mandalika SEZ, formed a special team to handle the daily activities in Mandalika SEZ. Meanwhile, there is no letter of assignment for the Directorate General of Regional Administrative Supervision that can synergize several directorates' performance. However, the development of SEZs in the regions requires cross-substance policy interventions, such as planning at the Directorate General of Regional Development, financing for regional incentives in the Directorate General of Regional Financial Development, and regional organization the Directorate General of Regional Autonomy. The role of the Directorate General of Regional Development Supervision and the Directorate General of Regional Financial Supervision oversees the substance of the policies related to SEZ to ensure that it would be carried out properly, with or without the role of the Directorate General

of Regional Administration Supervision Supervision.

Over the past three years, the Directorate General of Regional Development Supervision of the Ministry of Home Affairs has issued several control policies through the Minister of Home Affairs decision / circular letters for programs and activities planned in the Regional Government Work Plan. While the controlling programs and activities directly related to the Mandalika SEZ was only listed in the Minister of Home Affairs Letter No. 050/3638/Bangda, concerning the Facilitation of Final Draft Amendment to West Nusa Tenggara Province Work Plan (RKPD) 2018 and Minister of Home Affairs Letter No. 050/2789/Bangda, concerning the Facilitation of Draft Governor Regulation on 2020 RKPD. Each of the letters stated that one of the notes on programs/activities related to regional government affairs was to reconsider the regional support for national priorities. In this case, the development of tourism located in the West Nusa Tenggara Province and the Earthquake and Tsunami Contingency Plan's technical preparation in the Mandalika SEZ should be part of the cascading programs and activities.

The evaluation meeting minutes also did not show officials of the Planning Section of the SEZ National Council, the Coordinating Ministry for Economic Affairs. Representatives of the Ministry of Tourism had not attended them. One of the impacts was that licensing reforms in SEZ were not on the provincial government's agenda. This is evident from the licensing process related to the provincial service

organization that has not yet been fully delegated to the SEZ Administrator.

As a result, the SEZ that demands various policies had not addressed by the Directorate General of Regional Development Supervision comprehensively. The program control and activities of regional development planning documents are limited to general issues, mostly on disaster-related issues, instead of several other matters such as employment, MSMEs, spatial planning, and tourism, which should be the core of specific SEZ policies. This situation illustrates the lack of attention in the program's control policy instruments and activities of regional development planning documents to support Special Economic Zones. With the high load of work of the Directorate General of Regional Development Supervision and the Directorate General of Regional Financial Supervision, the supervision on the regional financing policies or incentives in the SEZ was potentially not optimal. Likewise, the Directorate General of Regional Autonomy has not conducted a special intervention and guidance policy on the Mandalika SEZ Regional Council and Administrator's organization since 2015. Previous studies on SEZ have shown that SEZs would be more likely to fail if there was no unity of planning (master plan) among the SEZ development stakeholders (Chen, 2019. p. 64).

### **Synergizing the Central Government and the Regional Government Policies**

The SEZ policy in Indonesia underwent renewal with two Government Regulations as a derivation of Law No. 39 of 2009 concerning Special Economic

Zones. In 2020, the Government stipulated Government Regulation No. 1 of 2020 on the Implementation of SEZ, and Government Regulation No. 12 of 2020 concerning Facilities and Incentives in the SEZ. Responding to these two regulations and the challenges of regional government policies in the Mandalika SEZ, four policies need to be enacted together.

### **Central-Regional Incentives**

The experience at Mandalika SEZ shows that some types of central incentives such as VAT are Manufacture Industrial-Centered. The incentive for service businesses is unclear, and the VAT relief only applies to non-service businesses. Hotel operators in the Mandalika SEZ postponed its construction because the incentives for construction services was unclear.

The Regional Government's policy intentions in the SEZ were carried out by issuing a Regional Regulation on Facilitation and Incentives. This is certainly a positive step in the implementation of the SEZ Policy. However, in implementation, there was an unequal practice on the BPHTB fee. Meanwhile, the incentive policy direction in SEZ itself has been corrected through PP No. 12 of 2020. This regulation has set the opportunity to implement incentives in the tourism sector through articles 26, 27, 28, and the local tax sector through article 29. Of course, this correction must be responded carefully to align local government policies related to local tax incentives. Its enforcement needs to be supervised by the Directorate General of Regional Financial Supervision of the

Ministry of Home Affairs and the Ministry of Finance.

### **Affirmative Action, Forkompimda Socialization, and Spatial Planning**

Cultural approaches, such as dialogue with rural communities and development in the buffer zones villages, should continue to be maintained. This is important to alleviate commercial pressure on community land. Often the efforts to embrace local communities by the government or business entities are corrupted and discriminatory at the village level. (Rawat, Bhushan, & Surepally, 2011, p. 24).

Several concrete steps in SEZ management were including using BUPP commissioners from the local community with good socio-cultural competence, and local MSME bazaar program in SEZ. Another positive step by the District Government was to include some personnel from the Village around the SEZ in the Task Force on implementing the Mandalika SEZ. The role of Forkompimda as the official representation of the regional leadership dialogue forum has also been directed towards the more humanist and sympathetic development of SEZs.

The Ministry of Home Affairs' internal and external coordination in responding to policies related to communities around SEZ was a complex matter. At this point, in addition to mobilizing the Directorate General of Village Government Development to optimize village government functions that support the investment climate in SEZ, the Ministry of Home Affairs needs to have coordinate with Ministry of Villages,

Development of Disadvantaged Areas, and Transmigration to optimize the function of empowering village communities, bearing in mind that the institution is an agency that handles the social aspect of village development. The Ministry of SOEs directive to develop appropriate CSR policies in PT. ITDC also needs to be issued. These multisectoral issues need to be resolved at the level of the SEZ National Council.

Another policy that has been awaited by the SEZ National Council to provide a solution to the community's rejection is the issuance of the Regional Regulation on the Central Lombok District Spatial Planning Plan, which at the time of the study was not completed. Based on article 83 PP No. 20 of 2020, the Regional Governments are required to establish Detailed Spatial Planning around the SEZ.

### **Rationalization of the institutionalization of SEZ Administrator**

Although it is regulated in various regulations, the institutionalization of SEZ administrators has not yet found the right form. For the Mandalika SEZ, SEZ administrators were formed as ex officio of the Central Lombok BPMPTSP. With this format, the Central Lombok BPMPTSP personnel's load of work was higher while receiving the same performance allowances.

With the Directorate General of Regional Autonomy, the Ministry of Home Affairs needs to establish a policy to prepare an organizational scheme that is more in line with the real situation of implementing SEZs in the regions. As a member of the SEZ national council, the Ministry of Finance also needs to prepare a

remuneration structure and performance control instruments for the SEZ administrators' performance allowance.

The licensing bureaucracy should be shortened so that it can be handled directly by the SEZ administrators. These are some of the real challenges in the SEZ implementation, considering that some regional licenses still demand extra bureaucracy beyond the SEZ Administrator. The Standard Operational Procedures for Licensing need to be integrated with an information system such as the OSS. Empirically an optimal online-based information system was proven to be the key to an SEZ's success (Zhijia Zeng, 2019, p. 21).

### **Optimization of the OSS System**

The SEZ administrator and the OSS system should be an inseparable part. The SEZ Administrator is an institutional form of organizing permits held in SEZ, while the OSS system is an instrument of licensing policy running well. Various licenses managed by the Mandalika SEZ Administrator used the OSS system.

As such, an OSS system developed with a special identifier feature for the implementation of SEZ licensing is necessary for the improvement of the Mandalika SEZ. The OSS system developed through Presidential Regulation No. 91 of 2017 concerning the Acceleration of Business Implementation still has the same treatment for any operations type. There was no special treatment for the SEZ permit system. Based on article 83 PP No. 1 of 2020, every SEZ licensing must be done through the OSS system. The OSS application developed in the information

system also includes a special menu for SEZ and its own dashboard. In terms of the policy framework, the simplification of bureaucracy applies to all types of licensing, including those under the regional government's authority. The Ministry of Home Affairs needs to oversee the simplification of bureaucracy in the regional licensing management in SEZ.

## CONCLUSION

Theoretically, the governance aspects in the management of Mandalika SEZ have been carried out well. Even so, this research shows that Mandalika SEZ is not enough to be well managed but must also be proper. So, the concept of proper governance is necessary. The goal is that economic development governance is healthier; protected community rights; and creating social inclusiveness.

Also, practically, the delegation of 116 regional licenses, and the infrastructure and community development, both inside and outside the SEZ, are concrete steps in strengthening the regional policies in the Mandalika SEZ. The Provincial Government issued a Regional Regulation regarding facilities (incentives) for regional taxes and retributions. The District Government responded by issuing a series of Decrees that have supported various policies in implementing SEZ, such as the provision of land and formation of a task force to improve the quality of coordination among the SEZ stakeholders.

The Central Government has an important role in the formation of policy in each region. This includes the Ministry of Home Affairs for each Regional Policy that supports the operation of SEZs. Recently,

two latest regulations, Government Regulation No. 1 of 2020 and Presidential Regulation No. 12 of 2020, which replace Government Regulation No. 96 of 2015, as the supporting regulation of Law No. 30 of 2009 on The Management of SEZ was issued. As a follow up to the new regulations, both the central and regional governments need to collaborate to respond to policy challenges related to the development of the Mandalika SEZ.

The Ministry of internal affairs, c.q. The Directorate General of Regional Administrative Supervision needs to:

Improve the quality and optimize the OSS as a licensing system that is compatible with the SEZ Tourism licensing system and supports the construction of buffer zones and affirmative action for the local communities.

Increase the coordination functions across the Directorate Generals to carry out more comprehensive development and general oversight functions of various regional policy substances related to the Tourism SEZ.

Establish a Special Task Force across the directorate-generals that functions as a one-stop implementation of Tourism SEZ policies in the regions.

The Ministry of Internal Affairs, via the Directorate General of Regional Development Supervision, should direct the evaluation of the regional development plan to ensure that the regional government's development plans are in line with the Tourism SEZ plan.

The Ministry of Internal Affairs, via The Directorate General of Regional Financial Supervision, should coordinate with the Ministry of Finance to develop



guidelines related to the upstream and downstream management of the regional fiscal and non-fiscal facilities in the Tourism SEZ.

The Ministry of Internal Affairs, via the Directorate General of Regional Administrative Supervision, needs to review Government Regulation No. 18 of 2016 concerning Regional Apparatus Organizations, specifically in supporting institutional SEZ administrators that are flexible for the conditions of SEZ in the Regions and supporting the realization of remuneration-based performance control instruments for the SEZ Administrators.

The West Nusa Tenggara Provincial Government through the West Nusa Tenggara Province Bappeda needs to have a control mechanism on the region program and activities to ensure that they are in line with the Mandalika SEZ development agenda, maximize the oversight function of the Mandalika SEZ Zone Council to institutionalize SEZ administrators, simplify the licensing processes that are under the Province's authority to be performed by the SEZ Administrator and implement the administrative functions of the Mandalika SEZ.

The Central Lombok District Government through the Central Lombok District BPMPTSP needs to accelerate of the formation of a participatory RDTR Regional Regulation, guide on improving PDAM performance, simplify the licensing processes under the authority of the district to be performed by the SEZ Administrators, and prepare the mechanism to control the performance of the SEZ Administrators employees.

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Vol.6, No.2, 2020

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