

Research Article

Batam City's Competitive Position as an Investment Destination in the Southeast Asia Region in 2021-2022

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Abstract

The increase in investment in Batam during the 2021–2022 period has reinforced Indonesia's position as a leading investment destination in Southeast Asia. As a Special Economic Zone and Free Trade Area, Batam offers a range of investment incentives, continuously developing infrastructure, and investment-friendly economic policies. This article aims to identify Batam's strategic position as an investment destination within the Southeast Asian region. The study employs a descriptive qualitative method, utilizing a literature review approach and secondary data analysis obtained from the *Badan Pengusahaan Batam* (BP Batam). The findings indicate that Batam experienced a significant increase in realized investment despite the global challenges posed by the COVID-19 pandemic. Key factors driving this growth include the city's expanding infrastructure, pro-investment government policies, and high economic competitiveness, all of which have contributed to enhancing Batam's investment appeal and strengthening its position in Southeast Asia. This success presents a model that may be replicated in other regions by reinforcing regulatory reforms, infrastructure development, and digital service delivery, thereby fostering a more inclusive and sustainable investment climate.

Keywords: Geoeconomics; Global Value Chain; Investment; Policy

Introduction

Investment is crucial in encouraging a country's economic growth because it is a key element in the development process. Stable economic growth can be created through sustainable investment. When a country has formulated a strategy towards developing a country's status, it must prioritize increasing investment. This strategic step is crucial to promoting inclusive economic growth, creating jobs, and reducing poverty. Support for pro-investment economic policies will ensure continued economic development and people's welfare. Therefore, investment development must be a top priority so that a country can become a developed country that is competitive and able to face global challenges.

Investment interest and prospects are increasing as the need to strengthen the global economy increases. Foreign direct investment (FDI) in Southeast Asia recorded significant growth in 2022 as a global investment

destination. Southeast Asia offers stability and promising economic prospects and positions this region as resilient amidst global uncertainty by offering economic stability and large market potential, as well as strategic sectors such as manufacturing, energy and technology. Investment growth reaching 5% in 2022 proves that Southeast Asia has strong attractiveness, even when global investment declines by 12% due to the impact of the Russian Ukrainian war. This figure represents a record high and further confirms the Southeast Asia region's position as an attractive destination for global investors amid global economic turmoil (ASEAN Secretariat, 2023).

Batam plays an important role in free trade and investment activities in the Southeast Asian region. As one of the strategic cities in Indonesia, Batam provides optimal access to international markets due to its location on the international shipping route of the Malacca Strait (BP Batam, 2024b). This region not only strengthens its position as a major logistics and manufacturing hub in the region but also makes it a vital point in the global trade network. Batam's role is further strengthened by its status as part of the Free Trade and Free Port Area, which provides various incentives and conveniences for investors. In recent years, Batam has experienced a major transformation through various modern infrastructure development initiatives. Strategic projects, such as the development of Hang Nadim International Airport and the revitalization of Batu Ampar Harbor, are designed to support the smooth flow of investment and increase the efficiency of business processes. This infrastructure not only strengthens Batam's competitiveness at the regional level but also encourages accelerated local economic growth (KKBP, 2021). Apart from that, an integrated industrial area further emphasizes Batam's position as a manufacturing and distribution centre in Southeast Asia.

Batam has developed rapidly into an advanced and attractive industrial hub for foreign investors, particularly in the 1980s and early 1990s (Syuzairi et al., 2022). Batam is known as one of the regions in Indonesia that has never experienced an economic crisis. In 1998, when national economic growth contracted, Batam still recorded growth of more than 3%. Since then, Batam's economic growth has consistently exceeded the national target (Zaenuddin, 2023). Investment growth in Batam City from year to year shows an increase. Batam's economic growth will increase sharply to reach 121.60 % in 2022. In 2021, investment realization is expected to reach IDR 14.88 trillion, or 59.52% of the target of IDR 25 trillion (BP Batam, 2021). These numbers clearly show how the pandemic has turned out to influence investment flows in Batam, considering global uncertainty influences investors' decisions. However, there was a significant increase in 2022, amounting to IDR 30.4 trillion, or 121.60% of the same target of IDR 25 trillion (BP Batam, 2022).

The COVID-19 pandemic, which has affected the world since early 2020, has had a significant impact on various sectors, including the economy and investment (Orinaldi, 2021). However, amidst these challenges, Batam has shown extraordinary performance as one of the strategic investment areas in Indonesia. Even though there was a decline in investment realization in 2021, Batam managed to recover by achieving investment that exceeded the target in 2022, reflecting its attractiveness that remains strong even in difficult times. This increase not only shows a strong recovery from the impact of the pandemic but also reflects Batam's attractiveness as an increasingly competitive investment area at the national and international levels. A comparison between 2021 and 2022 illustrates the success of economic recovery efforts in Batam through government policies, strengthening infrastructure, and improving services to attract investment. These results also show that investors have confidence in Batam's potential as a strategic investment destination.

In 2021, Batam recorded an investment realization of IDR 14.88 trillion, equivalent to approximately 59.52% of the target of IDR 25 trillion. This figure, although lower than the target, still shows stability amidst global uncertainty due to the pandemic. Various obstacles, such as mobility restrictions, supply chain disruptions, and investment project delays, are the main factors influencing this achievement. However, this achievement became an important basis for revival in the following year. This achievement not only shows Batam's success in attracting investor interest but also proves the region's resilience as a competitive investment destination. When compared to the previous year, there was a significant 104% increase, reflecting the successful implementation of the economic recovery strategy (BP Batam, 2021). Batam's success in increasing

investment during the pandemic is proof that the right strategy, innovation and adaptation to challenges can produce extraordinary results.

By maintaining this momentum, Batam will not only become a more attractive investment centre but also contribute greatly to national economic recovery and growth. Future challenges remain, but Batam has proven that a strong foundation, which is enough to continue progressing as a leading investment area. This increase in investment cannot be separated from Batam's efforts to develop modern infrastructure and provide ease of licensing through policies that support economic growth. Batam's relationships with investors have developed consistently, strengthening its position as a strategic investment center in Southeast Asia. Proactive government policies that encourage economic development also create a conducive environment for business growth. With continued support and investment, Batam's growth continues to expand key sectors and strengthen its connectivity in international markets (BP Batam, 2024). This creates new competition in an increasingly competitive region, providing huge opportunities for innovation and growth.

Batam City Government governance plays an important role in optimizing Batam's potential as an investment centre. Since being designated as a Special Economic Zone in 2007, the Batam City government has been committed to creating a conducive environment for investors (BP Batam, 2023a). One of the first steps taken was the formation of the *Badan Pengusahaan Batam* (BP Batam), which is tasked with managing and developing industrial areas and providing convenience in licensing for investors. BP Batam functions under the Ministry of Trade and significantly responsible for attracting foreign investment by providing efficient and transparent licensing services. Batam also offers relatively low operational costs, a continually developing infrastructure, and a ready to use workforce. All these factors support Batam to compete with industrial areas in Southeast Asia. Good governance is also key in attracting investment. In this case, the Batam City Government is committed to implementing the principles of transparency, accountability and community participation in every decision-making process, by providing space for the community to contribute to city development, creating synergy between government, society and the business world.

This paper aims to identify Batam's strategic position as an investment destination in Southeast Asia. Employing a geoeconomic and supply chain management perspective, the research analyzes the potential of Batam City in supporting efforts to strengthen its status as an investment hub during the 2021–2022 period. This is examined through the implementation of policies focused on providing incentives, simplifying licensing procedures, and developing infrastructure to enhance Batam's competitiveness. The analysis will center on identifying Batam's strategic position and the role of the Batam government in formulating policies aimed at achieving competitive advantage in the Southeast Asian region. Furthermore, it will assess the government's role in fostering investment amid the disruptions caused by the COVID-19 pandemic. Accordingly, this study seeks to provide a comprehensive overview of the policy framework adopted by Batam City in driving investment growth and enhancing its competitiveness in Southeast Asia, as well as the strategies undertaken to address global challenges and reinforce its strategic position as a prominent investment destination.

Literature Review

Geoconomics

Geoconomics is the study of the spatial, temporal, and political aspects of the economy and its resources. The term geoconomics was first used by George T. Renner, in his book entitled *Human Geography in the Air Age*. George T. Renner defines geoconomics as an effort to understand how geographic and political factors interact to form economic systems. This concept tries to see the economy not only as a phenomenon that occurs in a closed space, but also as a system connected to the broader physical and social environment (Blackwill & Harris, 2016). According to Edward N. Luttwak, geoconomics is part of geopolitics. He mentioned geoconomics as a term to describe the new competitive system between developing countries that emerged

after the Cold War (Grygiel, 2007). Meanwhile, Roger M. Kubarych defines geoeconomics as a meeting between economics and finance with political and global security considerations to achieve greater dominance (Iriawan, 2020).

Geoeconomics links the big picture to state efforts to dominate market practices. The term geoeconomics began to appear after the end of the Cold War. Geoeconomics examines the relationship between economic interactions, such as trade and international political relations, and state efforts in pursuing strategic interests. This approach is grounded in the growing significance of economic factors in international relations (Iriawan, 2020). The significant influence of countries on a region's economy reflects the dominance of strong countries in responding to opportunities and challenges related to global capital movements, markets, investments, and natural resource potential. In other words, geoeconomics combines geographic and demographic aspects with economic potential to influence the domination of large countries over smaller countries (Priyono & Yusgiantoro, 2017).

Following the unipolar era and the rise of economic liberalism in the 1990s, a growing trend emerged for countries to view trade and business issues through the lens of national security and foreign policy (Vihma, 2018). This sparked renewed interest in the relationship between trade and strategy, making geoeconomics a central concept in policy analysis. According to Blackwill and Harris, geoeconomics has re-emerged as a form of geopolitical struggle that is prioritized by some of the largest countries in the world and influences the result of several important global strategic challenges (Blackwill & Harris, 2016). This is also why 21st-century geopolitics will be carried out more through an economic approach (Ágnes, 2015).

According to Luttwakian, geoeconomics is defined as the geostrategic use of economic power by countries (Wigell, 2016). Geoeconomics follows strategic logic, which was one of Luttwak's main points in his influential 1990 essay published by *The National Interest*. In that paper, Luttwak introduced the term "geoeconomics" into foreign policy analysis, offering a clear view of economic power and its increasingly important role in international affairs. In his opening, Luttwak criticizes post-Cold War optimism, illustrating that the logic of conflict in international relations has been replaced by global interdependence, which has positive impacts. Luttwak challenges this liberal paradigm by emphasizing the importance of strategic interests, which are often zero-sum and do not align with the logic of trade in economic relations between countries (Vihma, 2018).

Geoeconomics combines geographic and demographic aspects with economic potential to influence domination of large countries over smaller countries. The large influence of countries on the economy of a region reflects the dominance of strong countries in responding to opportunities and challenges related to the movement of global capital, markets and investment (Priyono & Yusgiantoro, 2017). Investment can be used as a strategic tool countries use to achieve economic and geopolitical interests. Foreign direct investment (FDI) has grown rapidly since the 1980s, becoming a significant tool of international trade and geopolitical influence. This growth, marked by an increase in the value of FDI globally, shows the critical role of FDI in shaping economic relations between countries. Countries such as Germany, China, and the United States utilize FDI as part of their geoeconomic strategies in various ways (Klement, 2021).

Scholvin and Wigell define geoeconomics as using economic means to achieve strategic goals. Geoeconomics examines the interplay between geopolitics and economics in international relations. The Foreign direct investment (FDI) approach has become a key instrument in global geoeconomic competition. Wigell's framework offers a tool for understanding how countries utilize FDI as a means to achieve their geopolitical objectives. By analyzing FDI through a geoeconomic lens, we can see how cross-border capital flows are not only driven by purely economic considerations but also by strategic calculations. When a country can integrate FDI into a broader geoeconomic strategy, it can face an increasingly complex and competitive global landscape (Scholvin & Wigell, 2018).

Global Value Chain (GVC)

Global value chains (GVC) have played a pivotal role in transforming business sectors across various developing countries by creating opportunities for specialization in specific activities or stages of production. Participation in GVC is generally associated with the acceleration of industrialization, leading to increased productivity among firms and the creation of new employment opportunities. Furthermore, the growing volume of investment originating from developing countries is beginning to exert significant influence on the evolving dynamics of GVC (Benito et al., 2019). Since the early 1980s, the global economy has undergone substantial shifts in international trade patterns, marking the onset of what is now referred to as the GVC era (Antràs & Chor, 2022). This development parallels Hobsbawm's perspective, which underscores how colonialism, imperialism, and free trade policies expanded international trade networks—relationships that can be viewed as precursors to the modern global supply chain.

This change was triggered by a combination of the information and communications technology (ICT) revolution, the accelerated reduction of trade barriers through various trade agreements and China's entry into the WTO in 2001, as well as political developments that increased the participation of the world's population in the capitalist system (adar BakhshBaloch, 2017). Advances in industrial capabilities in developing countries have shifted the old view of permanent dependency and underdevelopment. Some regions and countries have succeeded in improving their position in the global economy, while others have been marginalized or experienced increasing inequality and social polarization. One of the primary differences in today's development dynamics compared to the past is the geographic fragmentation of value chains, as well as their functional integration into broader global systems, known as global value chain.

Dicken argues that what distinguishes the current era of "globalization" from the previous era of "internationalization" is the functional integration of economic activities across multiple countries. During the internationalization era, economic activities were merely geographically dispersed beyond national borders. In contrast, the globalization era is characterized not only by this spatial dispersion but also by the coordinated management of these activities. GVC offer a comprehensive framework for understanding how such functional integration is achieved (Zanfei, 2000). Although economic activities are widely distributed, they are closely coordinated within expanding networks of multinational corporations as well as among independent firms (Borrus et al., 2003).

The term global value chain refers to the set of activities involved in the process of creating and distributing a product or service, from ideation to end use or recycling. In a global framework, these activities are spread across companies worldwide. GVC governance refers to the organizational structure that facilitates collaboration between these companies, including the strategic decisions made by the lead company to manage the flow of the value chain. The importance of GVC in relation to investment lies in the fact that value chains do not function automatically through ordinary market mechanisms, but rather through investment decisions made by large companies that have global access. States and international organizations play an important role in facilitating and regulating investments involved in GVC, both through policies that support international investment flows and through direct roles as actors through state-owned companies or public procurement. The link between GVC and investment is critical to understanding how value distribution and investment decisions influence the outcomes of these global economic networks (Ponte & Sturgeon, 2014).

The global value chain initially did not discuss actors the relationships between global economic actors. However, two other areas of study provide important insights into this aspect of the relationship. The first is relational, economic geography, which looks at how relationships and networks between economic actors explain how economic actors' relationships and networks shape economic processes. The second is the business network literature, which focuses on how multinational companies create and share knowledge within their networks. In GVC networks, activities are not distributed evenly; regulatory firms often lead and coordinate complex operations to ensure that networks run efficiently and generate high value (Kano, 2018).

GVC offer opportunities for developing countries to enter specific large-scale and specialized industrial segments, paving the way for export-based economic development and technological learning.

GVC governance theory plays an important role in explaining how and why inclusion and exclusion occur at the industry level, as well as their impacts (Ponte & Sturgeon, 2014). The GVC governance literature not only examines the changes taking place but also explains why and how new opportunities emerge for firms, regions, and countries to participate in the global economy. There is a mutually supportive relationship between foreign direct investment and participation in GVC. Multinational companies can utilize GVC to reduce costs, mitigate risks, and enhance their market position by effectively managing global production networks. On the other hand, domestic companies can be involved in GVC through four main channels: becoming suppliers to international companies, establishing strategic alliances, conducting direct exports, or engaging in FDI abroad. The interactions between these companies are a key driver of productivity and competitiveness. Based on this, GVC participation can attract multinational companies and connect them with local companies (Qiang et al., 2021).

Methods

This paper focuses on an in-depth analysis of the examined phenomenon through data collection based on a literature review. The research employs a descriptive qualitative method, using a literature review approach and secondary data analysis obtained from the *Badan Pengusahaan Batam* (BP Batam). This approach aims to explain and describe the policies implemented by BP Batam in its efforts to stimulate investment growth during the 2021–2022 period, thereby supporting Batam's strategic position in the Southeast Asian region. As a qualitative study, this research seeks to obtain in-depth and meaningful data, with particular attention to the processes and interpretive outcomes of data analysis (Jamil et al., 2024). Data were collected from various sources, including books, peer-reviewed journals, media articles, official statements, and policy documents. The collected data were then analyzed and interpreted narratively to provide a comprehensive account of the investment policies and strategies adopted by Batam City to reinforce its position as a leading investment destination in Southeast Asia.

Result and Analysis

Investment Development in Batam City

Batam is a region categorized as part of the National Activity Center and is also recognized as a National Strategic Area, serving as a Free Port and Free Trade Area (Asiva Noor Rachmayani, 2015). The initial establishment of Batam Island focused on serving as a logistics and operational base for offshore oil exploration and exploitation by the State-Owned Company Pertamina. In the 1960s, Batam successfully established itself as a logistics hub for petroleum, particularly on Sambu Island. The strategic location of Batam City, which is directly opposite Singapore and Malaysia, gives Batam an advantage compared to other islands (BP Batam, n.d.). In the 1970s, under President Suharto's government, Batam was designated as an industrial center to compete with Singapore.

The government issued Presidential Decree Number 41 of 1973 to speed up development to form a body called the Batam Island Industrial Authority Agency. This agency is responsible for the management and development of Batam, with a function to regulate foreign investment permits, aiming to promote investment. With the privileges the central government gave, Batam developed rapidly into an advanced and attractive industrial area for foreign investors, especially in the 1980s to early 1990s (Syuzairi et al., 2022). Batam is known as one of the regions in Indonesia that has never experienced an economic crisis. In 1998, when national

economic growth contracted, Batam continued to grow by more than 3%. Batam's economic growth consistently exceeds national targets. In fact, 2005, Batam received the 2005 Investment Award from the Regional Autonomy Implementation Monitoring Committee because it was considered the most popular region for investors and ranked highest in investment competitiveness among 440 level II regions in Indonesia (Zaenuddin, 2023).

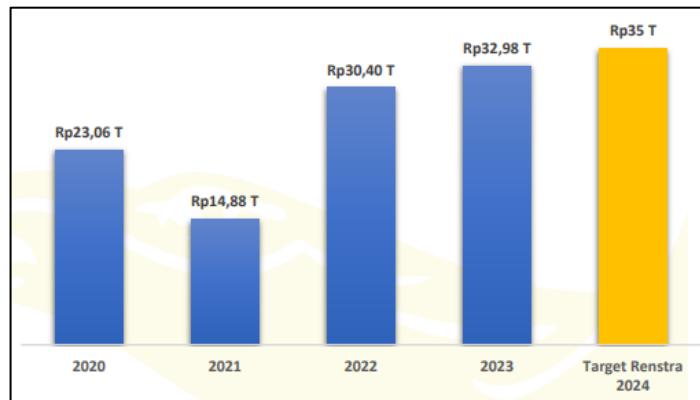


Figure 1. Growth Trend in Investment Realization for 2020-2023 and Strategic Plan Target for 2024

Source: LAKIP BP BATAM 2023

The growth trend in investment realization in the last five years shows an increase. Realized foreign investment in 2020 amounted to IDR 23.06 trillion, this achievement indicates high optimism regarding the investment climate in Batam even though it recorded an economic decline of -2.55 % in 2020. In 2021, investment realization only reached IDR 14.88 trillion. This figure clearly illustrates the impact of the pandemic on investment flows in Batam, as well as the influence of global uncertainty on investors' decisions. Batam has succeeded in maintaining its position as an investment destination, as evidenced by investment realization that reflects Batam's capacity to recover from the effects of the Covid-19 pandemic is noteworthy. In 2022, there was a substantial increase amounting to IDR 30.4 trillion, which represents 121.60% of the original target of IDR 25 trillion. This rise not only indicates a robust recovery from the pandemic's impacts but also highlights Batam's growing appeal as a competitive investment destination (BP Batam, 2021).

The realization of investment in Batam in 2023, amounting to IDR 32.98 trillion or 104.70% of the target of IDR 31.5 trillion, serves as clear evidence of the effectiveness of the investment management strategies implemented by the government and the Batam Indonesia Free Zone Authority (BP Batam). This achievement not only surpassed the predetermined target but also contributed significantly to regional economic growth, which reached 7.04%—well above the national average of 5.05%. Investment performance in Batam has demonstrated a consistent upward trend in recent years. In 2023, the realized investment of IDR 32.98 trillion represented an increase from IDR 30.40 trillion in 2022. This positive development indicates substantial investment growth and reflects Batam's strong performance relative to the final target set in BP Batam's Strategic Plan (Renstra) for 2024, which is IDR 35 trillion. The 2023 achievement accounts for 94.23% of that target, suggesting that Batam is on a solid trajectory toward fulfilling its investment objectives (BP Batam, 2023).

There are interesting things about investment activities in Batam from 2021 to 2022. Investment realization in Batam has increased significantly even though the world faces uncertainty. Batam has succeeded in raising and proving its position as a leading investment destination. Batam successfully leveraged this momentum by taking strategic steps. This success cannot be separated from the strategic policies implemented by the government and the BP Batam, which were able to create a conducive investment climate amid a challenging situation. This reflects that Batam has a strong attraction in various industrial sectors, which further strengthens its position as a strategic investment area. Seeing these achievements, it is important for Batam

to continue to maintain this momentum by strengthening its competitiveness in simplifying regulations and ensuring the investment climate remains conducive (BP Batam, 2022).

Competitive Advantages of Batam City

Batam is one of Indonesia's strategic regions that continues to attract investors both domestically and internationally. The city has effectively applied the geoeconomic concept to enhance its competitiveness within Southeast Asia. This approach emphasizes the unique advantages and strengths of Batam compared to similar regions, serving as a distinctive appeal for investors (Kominfo Batam, 2022). Beyond its strategic location, the rapid development of infrastructure plays a crucial role in establishing Batam as a primary investment destination in Southeast Asia. Key infrastructure assets include one international airport, five international passenger ports, and four cargo ports, which collectively demonstrate Batam's readiness to function as a competitive logistics and trade hub (BP Batam, 2023). Furthermore, the Batam-Rempang-Galang bridge and an extensive road network spanning 1,670 kilometers enhance regional connectivity and facilitate efficient mobility of goods and people. The city's capacity is further supported by seven large-capacity reservoirs, comprehensive wastewater management facilities, and an electricity supply of 538.95 MW, all of which reflect a commitment to meeting the essential energy and water demands of businesses. Equally important is Batam's technological and communication infrastructure, which includes 111,700 telephone lines, a 1 Gbps internet backbone, and an IT service center equipped with disaster recovery capabilities. These combined assets, along with Batam's strategic geographical position, make the city an attractive destination for multinational corporations seeking a competitive investment environment (BP Batam, 2024).

The designation of Batam as a Free Trade Zone and Special Economic Zone under Government Regulation No. 44 of 2007 and No. 96 of 2015 represents a strategic initiative to position Batam as a highly competitive investment hub (Wulandhari, 2020). This status provides Batam with various competitive advantages, including tax and customs exemptions, as well as regulatory simplifications, all aimed at attracting global investors. Key incentives include exemptions from value added tax (VAT), luxury goods VAT, and import-export duties, thereby enhancing cost efficiency for businesses. Furthermore, the establishment of the Special Economic Zone offers fourteen investment incentives, such as investment allowances, accelerated amortization, reduced dividend taxes, extended loss compensation periods, tax holidays, exemption from Income Tax Article 22 on imports, suspension of import VAT and domestic purchase VAT, exemption from VAT and/or luxury goods VAT, free delivery of goods to other facility recipients, VAT refunds for foreign passport holders, suspension of import duties, exemption from import duties, and exemption from excise taxes. These comprehensive facilities significantly contribute to Batam's attractiveness as a premier investment destination. (BP Batam, 2023a).

BP Batam's strategic initiatives to continuously align industrial development with the unique conditions, characteristics, and potential of Batam are critically important in driving accelerated regional economic growth. Emphasizing the development of the manufacturing sector, which has historically been the cornerstone of Batam's economy, demonstrates a commitment to establishing a high value-added, export-oriented industry. This approach not only enhances Batam's competitiveness on a global scale but also generates significant opportunities for job creation and technological innovation. The advancement of manufacturing industries such as electronics, medical equipment, semiconductors, and automotive possesses strategic potential to position Batam as a modern industrial hub that is resilient and responsive to global market dynamics. Moreover, the deliberate focus on service sectors—including logistics, tourism, healthcare, and finance—represents a prudent diversification strategy, given these industries' substantial contributions to regional development acceleration. Policies prioritizing infrastructure development and investment facilitation serve as primary catalysts for this growth, even amidst challenges such as the post-COVID-19 pandemic recovery period. With sustained expansion and notable contributions from the processing and construction sectors, Batam has solidified its status as a competitive industrial region within Southeast Asia (BP Batam, 2022).

Batam City investment policy strategy

To achieve its goals of becoming a leading investment destination in Southeast Asia, the selection of appropriate strategic policies is crucial. Batam's strategic policy framework plays a pivotal role in guiding the development of strategic objectives and work programs, reflecting a systematic approach to addressing future challenges. This framework not only demonstrates Batam's readiness to resolve various issues but also underscores its commitment to fulfilling national and strategic targets. BP Batam plays a central role in driving increased investment by manifesting its dedication through a series of strategic initiatives that support national economic growth (Pemko Batam, 2021). The strategic objectives outlined by BP Batam for 2021 embody a comprehensive focus on fostering economic growth and enhancing governance within the region.

The development of a public service agency information system represents a strategic initiative undertaken by BP Batam. Through digitalization, BP Batam's operational processes have become more transparent, efficient, and accountable. The performance of licensing services and the implementation of service innovations are critical components in fostering a conducive business environment. By delivering fast, effective, and innovative services, BP Batam serves as a benchmark for other regions in strategic regional management (BP Batam, 2021). Batam's emphasis on cultivating a favorable climate for foreign investment is a decisive step toward supporting a more productive economic structure. By welcoming foreign investment, BP Batam not only attracts capital but also facilitates the transfer of technology and best practices that can accelerate regional development. Moreover, the promotion of export-oriented investment is especially significant in enhancing national economic competitiveness. This approach positions BP Batam as a catalyst for globally oriented industrial growth while contributing substantially to the national economy. The provision of effective and efficient services further establishes Batam as a trusted destination for investors (Harefa, 2013).

The preparation of a regulatory framework and the establishment of strong synergy between BP Batam and the national agenda, as outlined in the Fourth National Medium-Term Development Plan (RPJMN) 2020–2024 and formulated through the NAWACITA program, demonstrate a strategic alignment with national development priorities. The seven NAWACITA priority agendas, which range from strengthening economic resilience to transforming public services, provide a clear directive for BP Batam to contribute effectively to national progress. The formulated framework not only embodies ambitious goals to enhance the quality of human resources, infrastructure, and environmental sustainability but also underscores a commitment to reinforcing political stability, rule of law, and security—foundations essential for sustainable long-term development (BP Batam, 2022). BP Batam's strategic targets for 2022 reflect a forward-looking approach aimed at supporting economic growth and enhancing regional competitiveness. The initial focus was on increasing investment realization within the Batam Free Trade Zone by fostering the development of an industrial ecosystem, allocating land ready for use, and facilitating business licensing processes. This approach demonstrates BP Batam's understanding of core investor needs, including rapid access, sufficient infrastructure, and certainty in licensing procedures. The second strategic priority centers on improving infrastructure and facilities to further support and attract investment.

The provision of high-quality technical planning documents and targeted infrastructure development is expected to have a positive impact on investment attractiveness. Furthermore, accountable, effective, and efficient financial management ensures the optimal utilization of public funds and investments, thereby strengthening investor confidence (BP Batam, 2022). Efforts to improve investment-supporting facilities and infrastructure in Batam are centered around three key performance indicators: the development of investment-supporting infrastructure, the establishment of environmentally friendly zones and new renewable energy initiatives, and the enhancement of areas supporting education, Micro, Small, and Medium Enterprises, and tourism. Infrastructure development not only acts as a catalyst for economic growth but also enhances investor confidence in Batam as a preferred business destination. Moreover, the focus on developing environmentally friendly zones and new renewable energy aligns with global sustainability trends.

By fostering environmentally sustainable areas, Batam not only addresses present needs but also ensures long-term sustainability, which serves as an additional attraction for modern investors (Batam City Government, 2022).

Batam has significantly reformed its licensing services by implementing the Online Single Submission Risk-Based Approach through the Indonesia Batam Online Single Submission system. This initiative reflects a tangible effort to enhance bureaucratic efficiency and administrative transparency in the region (IBOSS, 2020). Grounded in Government Regulation of the Republic of Indonesia No. 41 of 2021, Batam aims to solidify its position as an investor-friendly and competitive economic hub. The comprehensive list of business permits available through the Free Trade Zone and Free Port Area Batam authority not only provides legal certainty for business actors and investors but also demonstrates Batam's preparedness to compete on both national and international levels. In accordance with Government Regulation No. 41 of 2021 concerning the Administration of Free Trade Zones and Free Ports, Batam is committed to streamlining regulations, upgrading infrastructure, and improving public services that directly support business and investment activities. Policies that respond to global market demands are further reflected in the incentives provided to investors, reinforcing Batam's strategic role in attracting foreign and domestic capital.

The increase in investment in Batam during the 2021–2022 period has significantly contributed to Indonesia's position as a leading investment destination in Southeast Asia, with total investments reaching USD 22 billion in 2023. This growth not only reflects Batam's appeal as a strategic economic zone but also underscores the effectiveness of government policies in fostering a conducive investment climate. Domestic Investment rose sharply from IDR 2.5 trillion in 2022 to IDR 6.8 trillion in 2023, indicating growing confidence among domestic investors in Batam's economic prospects. Although FDI experienced a modest decline—from IDR 10.7 trillion in 2022 to IDR 8.8 trillion in 2023—the diversity of investor countries reflects Batam's enduring global appeal. Singapore remains the largest foreign investor, while the presence of European countries such as France, Luxembourg, Switzerland, the United Kingdom, and Germany demonstrates Batam's success in attracting capital from a broad international base. This international investment pattern signals Batam's ability to compete globally, particularly in high value-added sectors, thereby reinforcing its role in supporting robust and sustainable economic growth (BP Batam, 2022).

Batam City's Leading Investment Sector

Since its initial formation in 1970, Batam has demonstrated a strong commitment to developing an industrial-based economy. There are more than 1,300 leading industries being developed, both through foreign direct investment (PMA) and domestic direct investment (PMDN). Batam's advantage lies in the diversity of its industrial sectors, from metal and machinery and electronics to shipping. This diversification is key factor in maintaining economic stability and competitiveness in the global market. improving community welfare. In line with the very rapid population growth, BP Batam prioritizes the domestic investment sector (PMDN) as a leading industry, aligning with the needs and opportunities presented by this growth. Focusing on developing small and medium-sized enterprises (SMEs) through sectors such as transportation services, construction, metals, shipping, and industrial services not only strengthens the local economic structure but also paves the way for an equal distribution of community welfare. Through this policy, Batam has a great opportunity to create a significant multiplier effect. Increasing the added value of domestic raw materials, absorbing local labor, and potential foreign exchange from exports can be the main pillars that encourage sustainable economic growth. If managed well, this priority will not only strengthen Batam's position as an industrial city but also make it a successful example in encouraging economic independence through the domestic sector.

Potential Investment Sectors in Batam City

Since its establishment in 1970, Batam has consistently demonstrated a strong commitment to developing an industrial-based economy. Currently, more than 1,300 prominent industries are operating in the region, supported by both foreign direct investment and domestic direct investment. Batam's strategic advantage lies in the diversity of its industrial sectors, ranging from metal and machinery, electronics, to shipbuilding. This industrial diversification plays a critical role in maintaining economic stability and enhancing competitiveness in the global market while also contributing to improvements in community welfare. In response to the region's rapid population growth, BP Batam has prioritized the domestic investment sector as a key driver of industrial development. This strategy aligns with both the emerging needs and the opportunities brought about by demographic expansion. Emphasis on the development of small and medium sized enterprises—particularly in sectors such as transportation services, construction, metal processing, shipbuilding, and industrial services—not only strengthens the foundation of the local economy but also facilitates a more equitable distribution of economic welfare. This policy orientation offers Batam a significant opportunity to generate a strong multiplier effect. The enhancement of domestic raw material value chains, increased absorption of local labor, and the potential for foreign exchange earnings through exports are poised to serve as the main pillars of sustainable economic growth. If effectively managed, these priorities will not only consolidate Batam's position as a leading industrial city but also establish it as a model for fostering economic self-reliance through domestic sector empowerment (Sitorus et al., 2024).

Batam Aero Technic (BAT) plays a pivotal role in supporting airline operational efficiency, minimizing technical risks, and ensuring the reliability of flight schedules. These contributions not only enhance Indonesia's reputation within the global aviation sector but also position BAT to become a pioneer in the aircraft maintenance, repair, and overhaul (MRO) industry in Southeast Asia. With an estimated market potential of 12,000 aircraft and a projected business value of USD 100 billion by 2025, the Asia-Pacific region presents a significant opportunity for BAT's expansion. The optimization of BAT's capabilities and supporting infrastructure is crucial for strengthening Indonesia's position as a major player in the regional MRO sector. In this context, the establishment of the Batam Special Economic Zone (SEZ) by the Indonesian government constitutes a strategic move to accelerate the development of BAT and related key industrial sectors. The SEZ offers a range of incentives and facilities that not only benefit BAT directly but also enhance Indonesia's overall competitiveness in the global aviation industry. As a policy instrument, the SEZ acts as a catalyst for regional economic growth, technological advancement, and the stimulation of innovation in high-value-added industries (Limanseto, 2022).

The integration of geoeconomic considerations and the global value chain framework is essential for understanding Batam's potential as a strategic industrial hub. From a geoeconomic perspective, Batam's geographic location enables logistical efficiencies and substantial foreign exchange savings by offering localized Maintenance, Repair, and Overhaul services. Within the global value chain context, Batam serves as a critical node in the global aviation industry's value chain, delivering high value-added services that enhance regional airline operational efficiency. Governmental support through the establishment of the Batam Special Economic Zone further reinforces this integration by offering a range of fiscal incentives and institutional facilities that stimulate investment and innovation. The Special Economic Zone functions as a catalyst for attracting global industry players while enhancing Indonesia's competitiveness in international markets. Through a synergistic strategy that combines geoeconomic positioning with global value chain participation, Batam is well positioned to become a national aviation industry hub, advancing Indonesia's standing as a key actor in the global aviation sector. This strategic development contributes positively to national economic growth by expanding employment opportunities and strengthening the autonomy of Indonesia's strategic industries.

Conclusion

Batam has demonstrated rapid progress in establishing itself as a prominent investment center in Southeast Asia. Designated as a National Strategic Area and a Free Trade Zone, Batam offers a unique combination of regulatory advantages that enhance its appeal to both domestic and foreign investors. Since its initial development in the 1970s as a logistics base and industrial center, Batam has undergone continuous transformation, driven by its strategic geographic location, supportive government policies, and structured regional management. Over the decades, Batam has exhibited resilience in the face of economic disruptions, notably maintaining relative stability during the 1998 Asian financial crisis. Although the city experienced a temporary downturn due to the COVID-19 pandemic, it has shown remarkable recovery, particularly in investment realization. In 2022 and 2023, Batam surpassed its investment targets, recording a total of IDR 32.98 trillion in 2023. This recovery not only underscores Batam's enduring attractiveness as an investment destination but also highlights its capacity to remain competitive amid evolving global economic challenges.

The increase in investment in Batam during the 2021–2022 period is projected to contribute significantly to Indonesia's position as a leading investment destination in Southeast Asia, with the total investment value expected to reach USD 22 billion by 2023. This achievement is closely linked to Batam's strategic role as a Free Trade Zone and Free Port, which continues to implement innovative measures aimed at enhancing investor convenience. The adoption of pro investment policies such as the digitalization of business services through the Online Single Submission Risk-Based Approach (OSS-RBA) and Indonesia Batam Online Single Submission (IBOSS)—alongside the provision of competitive fiscal and non-fiscal incentives, has helped cultivate a business ecosystem that is efficient, transparent, and attractive. Infrastructure development—particularly in port facilities, industrial zones, and transportation networks—continues to reinforce Batam's competitiveness and strengthens its position in the eyes of global investors.

This momentum further underscores the critical importance of synergy between the central and regional governments in fostering investment. While the central government establishes an adaptive and supportive regulatory framework, regional institutions such as Badan Pengusahaan Batam play an active role in implementing these policies at the local level. This collaborative approach not only increases the volume of investment but also facilitates the diversification of Batam's economic sectors, particularly in manufacturing, electronics, logistics, and tourism. Batam's success serves as a model for other regions in Indonesia, highlighting the potential for replicating effective governance and investment strategies nationwide. By continuing to advance regulatory reforms, invest in strategic infrastructure, and expand digital public services, Indonesia can solidify its position as one of Southeast Asia's most attractive investment destinations. These efforts are expected to not only stimulate economic growth but also generate employment opportunities and enhance overall societal welfare.

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