



Effectiveness of the Free Trade Zone Policy as a Solution to Improve the Economy in Batam

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ABSTRACT

This research aims to explore and analyze the regulations and implementation of the Free Trade Zone (FTZ) policy in the context of improving the economy in Batam City, Indonesia. This research uses non-doctrinal or empirical research. The applied problem approach involves three main approaches: a statutory approach, a conceptual approach, and a sociological or empirical approach. The data analysis technique used is qualitative analysis with a deductive data presentation pattern. Researchers will explore the regulations related to FTZs in Batam City and analyze the economic implications of these policies. Research findings show that in 2022 after the publication of PP No. 41 of 2021 has had an impact on improving the economy in Batam, including increasing export and import transactions so that Batam City's trade balance recorded a surplus of USD 2,262.24 million. Increase in the number of industrial and investment areas. It is hoped that the analysis of these findings will provide better insight into the contribution of FTZ policies to economic development at the local level.

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1. Introduction

Indonesia is not only known as a country of law¹, but also a country of plurality with diversity of ethnicities, languages, cultures, customs, livelihoods, geographical and religious landscapes². Through the Juanda Declaration, the Indonesian government also emphasized to the international community that Indonesia is an archipelagic country that is sovereign over all waters around, between and connecting the islands that are part of the mainland of the Republic of Indonesia. Indonesia's territory is around 1,904,569 km² with a total of around 17,504 islands. Then, in 2023, Indonesia's territory will be divided into 38 provinces, 416 districts and 98 cities.³

Geographically, Indonesia's position is on the international trade route, crossed by the equator and located between two continents, namely the Asian continent and the Australian continent, between two oceans, namely the Indian Ocean and the Pacific Ocean. Being on the international trade route provides a great opportunity for several regions in Indonesia to enter the international market,⁴ one of which is Batam City, located in the Riau Archipelago Province.

Singapore and Malaysia are two countries that directly border Batam City. Its strategic position provides advantages and privileges compared to other cities in Indonesia. By the central government, Batam City has been designated as a Free Trade and Free Port Area (KPBPB) or *Free Trade Zone*.⁵ Term *Free Trade Zone* refers to an area that does not impose direct and/or indirect taxes, this is a form of effort to encourage the economic cycle in the market to stabilize and improve the country's economy.⁶

Historically, the dynamics of Batam City's regulation as a region *Free Trade Zone* has experienced several changes as a result of adjustments to developments in the situation between domestic trade and developments in international trade.⁷ *Party* The latest issue issued by the government is Government Regulation Number 41 of 2021 concerning "Implementation of Free Trade Areas and Free Ports". *Party* This is one of the bases for the legitimacy of implementation *Free Trade Zone*. Previously, *the Free Trade Zone* was

¹ Article 1 Paragraf 3 UUD 1945

² Article 18 B Paragraphs 1 and 2 UUD 1945

³ Since 2022, the number of provinces in Indonesia will increase by 38 provinces, from previously only 34 provinces. The four provinces ratified by the Indonesian government in 2022 are South Papua Province (UU No. 14 of 2022), Central Papua Province (UU No. 15 of 2022), Mountainous Papua Province (UU No. 16 of 2022), West Papua Province Power (Law No. 29 of 2022)

⁴ M. Fuadillah Nugraha, "Analisis strategi perlawanan Indonesia dalam diskriminasi kelapa sawit oleh Uni Eropa." *Al-Adalah: Jurnal Hukum dan Politik Islam* 6, no. 1 (2021): 88-105.

⁵ Boni Kasih Napitupulu, and Prihadi Nugroho. "Pengaruh Aktivitas Industri Terhadap Peningkatan Ekonomi Penduduk Dan Perkembangan Perdagangan Jasa Di Kota Batam." *Teknik PWK (Perencanaan Wilayah Kota)* 5, no. 1 (2016): 1-9. <https://doi.org/10.14710/tpwk.2016.10619>

⁶ Dewi Nur Anugrahini, "Perkembangan Kawasan Ekonomi Khusus (KEK) Batam Dalam Pemberlakuan Free Trade Zone (FTZ)." *J Ilmu Hubungan Internasional* 3, no. 3 (2015): 559-570. <https://www.academia.edu/download/44615071/1441.-Dewi-Nur-Anugrahini-0702045003.pdf>

⁷ R. A. Putri, "Menakar Paradiplomasi Batam dalam Lingkup Free Trade Zone melalui Analisis Isi Regulasi". *Islamic World and Politics* 3, no. 2 (2019): 651-669.

regulated in Government Regulation Number 10 of 2012 concerning "Customs Treatment of Taxation and Excise and Procedures for the Importation and Removal of Goods into/and/from/and located in areas designated as free trade areas and free ports". This provision previously revoked Government Regulation Number 2 of 2009 concerning "Customs Treatment of Taxation and Excise and Supervision of the Importation and Removal of Goods into and from and in areas that have been designated as free trade areas and free ports."

Policy enforcement of *free trade zones in a specific area*, especially in The government designed Batam City to integrate domestic and global areas so that the area in question is competitive with economic areas in other countries. This policy is expected to increase interest in investing in Indonesia.⁸ By increasing interest in investing, it is hoped that it can also improve the investment ecosystem and business activities.⁹ Apart from that, it is also hoped that it will contribute to the expansion of employment opportunities and significant economic growth.¹⁰ Thus, it is hoped that large investments will have a positive impact on the the Indonesian economy creates new job opportunities and encourages sustainable economic growth. Thus, the level of success of this policy needs to be measured and known so that in the future, it can become a role model for breakthroughs in developing government management procedures and help accelerate development in the regions.¹¹

In line with the concept above, to see the progress and success of the free trade zone policy in Batam City, a comprehensive academic study is needed regarding the effectiveness of implementing the Free Trade Zone in Batam City, whether it is in line with this conception. The government's expectations are as it was originally intended to be implemented or vice versa. Moreover, it cannot be denied that Batam City as a free trade area also attracts the attention of many researchers. Among them is research conducted by Anggraeny (2020) titled "*Development of Indonesian Free Trade and Port Zone: Analysis of Historical in Batam Island*".¹² The research results show that historically, the development of Batam Island as a Free Trade Zone and Port area can be divided into five periods, namely (i) preparation period, (ii) infrastructure development and investment period, infrastructure development and capital investment development period, (iv) the period for improving facilities and infrastructure, investment and environmental quality, and (v) the preparation period for the consolidation of Batam as a Special Economic Zone in the free trade and port area.

⁸ Kriswanto Kriswanto. "The Urgency of Socio-Legal Studies on the Political Configuration of the Job Creation Act's Formation." *Al-Adalah: Jurnal Hukum dan Politik Islam* 7, no. 2 (2022): 107-123.

⁹ Gustika Sandra, et al. "An Analysis of the Criminal Act of Granting Business Permits by Officials Without Completed Environmental Permits." *IJCS: International Journal of Community Service* 1, no. 2 (2022): 182-186.

¹⁰ Muhammad Syuzairi, et al. "Peran Badan Pengusahaan Batam (BP Batam) dalam menarik Investasi Asing di Kota Batam." *Bahtera Inovasi* 6, no. 1 (2022): 86-96. <https://doi.org/10.31629/bi.v6i1.4894>

¹¹ Den Yealta, "Implikasi Free Trade Zone Terhadap Pertumbuhan Ekonomi Indonesia." *Transnasional* 7, no. 1 (2015): 1851-1867.

¹² Isdian Anggraeny, and Isdiyana Kusuma Ayu. "Development of Indonesian Free Trade and Port Zone: Analysis of Historical in Batam Island." *JL Pol'y & Globalization* 99 (2020): 19.

Research conducted by Siwage Dharma Negara (2020) with the theme of the study "Batam: Life after the FTZ".¹³ His research revealed that companies based in Batam benefit more from their integration into global production networks, rather than the special benefits FTZ status provides on the island of Batam. Siwage's research recommends opportunities to change investment conditions in Batam without hurting investment flows. Furthermore, research conducted by Alfiandri (2020) by the theme "The Impact of Planning to Change the Free Trade Zone to a Special Economic Zone in Batam City".¹⁴ The results of his research show that policy changes in the Free Trade Zone Becoming a Special Economic Zone (KEK) do not significantly affect foreign and local investment growth. Apart from that, this research also shows that KEK has several weaknesses compared to Batam's FTZ policy.

Different from the variety of existing research, this research focuses more on studies related to the effectiveness of implementing policy regulations *Trade Zone* in Batam City. Has it run according to the initial aim of holding it, or is it the opposite? Apart from that, researchers will also show several indicators, such as exports, imports, investment, economic growth, etc., as a benchmark for policy influence. *Free Trade Zone* on the economic development of Batam City. Therefore, it is important to carry out this research to provide novelty value from previous research. Because this study is based on newly published regulations, the correlation between Law Number 11 of 2020 and PP Number 41 of 2021.

2. Legal Material and Methods

In order to find comprehensive answers to the important research questions posed, in this study the researcher used empirical juridical research methods. This type of legal research examines how the law works in reality or, more specifically, the reciprocal relationship between Government Regulation Number 41 of 2021 concerning "Implementation of Free Trade Areas and Free Ports in Batam City and improving the economy in Batam City. The data sources used in this empirical juridical study are divided into primary and secondary data. The researcher collected the data through observations, interviews and document studies. The data obtained was then analyzed using qualitative descriptive techniques.

3. Results and Discussion

3.1. Free Trade Zone Regulatory Framework in Batam

Free trade, free port policies, or *free trade zones* are some of the government's strategies to improve the economy regionally and nationally. In principle, this policy aims

¹³ Siwage Dharma Negara, and Francis Hutchinson. "Batam: Life after the FTZ?." *Bulletin of Indonesian Economic Studies* 56, no. 1 (2020): 87-125. <https://doi.org/10.1080/00074918.2019.1648752>

¹⁴ Alfiandri Alfiandri, and Mahadiansar Mahadiansar. "Dampak Perencanaan Perubahan Free Trade Zone Menjadi Kawasan Ekonomi Khusus Di Kota Batam." *KEMUDI: Jurnal Ilmu Pemerintahan* 4, no. 2 (2020): 292-307.

to advance a business area.¹⁵ However, not all regions or business areas within a country can be designated as such free *Trade zones*. Compared with other areas, a *free trade zone* has the advantages and privileges of doing business. This is because this area is conceptualized by law as a special area or territory with a special set of provisions. This special set of provisions was designed to provide incentives to attract interest in business and investment, eliminate various trade barriers, and simplify bureaucratic matters.¹⁶ The incentives provided include fiscal incentives (tax) and non-fiscal incentives (convenience, speed and certainty regarding policies and regulations). Therefore, a *Free Trade Zone* can be interpreted as part of the government's efforts to develop government governance that utilizes existing potential and is a form of development of special *Economic Zone* (a Special Economic Zone) which is prepared to maximize export, import, industrial activities and other economic activities that have high economic value.¹⁷

Conception *Free Trade Zone* in Batam City, implementation is always monitored and evaluated by the government. This can be seen from the development of regulations that regulate it. De jure, Batam is designated as a region-free *trade zone* with the birth of several regulations, such as Government Regulation instead of Law no. 1 in 2007,¹⁸ Law Number No. 44 of 2007¹⁹ and Government Regulation no. 46 of 2007²⁰. The latest regulation is the issuance of Government Regulation Number 41 of 2021 concerning "Implementation of Free Trade Areas and Free Ports".

Arrangement *Free Trade Zone* in Government Regulation No. 41 of 2021, was prepared in order to carry out the mandate of Law Number 11 of 2020 concerning Job Creationa *quo* Article 152 and Article 185 letter b, which aims to improve the investment ecosystem and business activities as well as expand employment opportunities in Free Trade Areas and Free Ports.²¹ With the existence of Government Regulation Number 41 of 2021, it is hoped that it will be able to have a positive influence in increasing transaction volume, ease of licensing, and clarity in the delegation of licensing authority directly to regional

¹⁵ Anggraeny Arief, and Rizki Ramadani. "Omnibus Law Cipta Kerja dan Implikasinya Terhadap Konsep Dasar Perseroan Terbatas." *Al-Adalah: Jurnal Hukum dan Politik Islam* 6, no. 2 (2021): 106-120.

¹⁶ Junimart Girsang, Lu Sudirman, and Desy Susanti. "Analisis Yuridis Peningkatan Penanaman Modal Asing Di Kota Batam." *Journal of Judicial Review* 17, no. 1 (2017): 58-79. <https://journal.uib.ac.id/index.php/jjr/article/view/104>

¹⁷ Cecep Sutrisna, "Kawasan Ekonomi Khusus dan Aspek Hukum Ekonomi Internasional." *Wacana Paramarta: Jurnal Ilmu Hukum* 21, no. 4 (2022): 33-40. <https://doi.org/10.32816/paramarta.v21i4.222>

¹⁸ Peraturan Pemerintah Pengganti Undang-Undang (Perpu) Nomor 1 Tahun 2007 tentang Perubahan Atas Undang-Undang Nomor 36 Tahun 2000 Tentang Penetapan Peraturan Pemerintah Pengganti Undang-Undang Nomor 36 Tahun 2000 Tentang Penetapan Peraturan Pemerintah Pengganti Undang-Undang Nomor 1 Tahun 2000 Tentang Kawasan Perdagangan Bebas Dan Pelabuhan Bebas Menjadi Undang-Undang

¹⁹ Undang-undang (UU) Nomor 44 Tahun 2007 tentang Penetapan Peraturan Pemerintah Pengganti Undang-Undang Nomor 1 Tahun 2007 tentang Perubahan Atas Undang-Undang Nomor 36 Tahun 2000 tentang Penetapan Peraturan Pemerintah Pengganti Undang-Undang Nomor 1 Tahun 2000 tentang Kawasan Perdagangan Bebas dan Pelabuhan Bebas Menjadi Undang-Undang Menjadi Undang-Undang

²⁰ Tentang Kawasan Perdagangan Bebas Dan Pelabuhan Bebas Batam

²¹ Muhammad Zaenuddin. "Strategi Kebijakan Pembangunan di Kota Batam." *Elastisitas-Jurnal Ekonomi Pembangunan* 5, no. 1 (2023): 13-20. <https://doi.org/10.29303/e-jep.v5i1.71>

regulators. Apart from that, it also aims to resolve the obstacles that have been faced so far and have not been resolved.

Based on the results of searches and studies regarding the birth of PP No. 41 of 2021, several obstacles to implementation were identified *Trade Zone* previously and through PP No. 41 of 2021, regulations have been updated and perfected, namely: *First*, Institutional Aspects consisting of the Area Council and Business Body. In the previous provisions, there was a lack of clarity in the procedures and determination of the Regional Council, as well as the absence of direct linkages between State Ministries/Institutions and the Regional Council, which is responsible for determining facilities and policies. In addition, there is no clarity regarding the institutional structure and different funding sources between Business Bodies. PP no. 41 of 2021 clarifies and confirms the regulations regarding procedures and determination of the Regional Council. In accordance with the provisions of Article 4, paragraph 1, it is emphasized that the Regional Council is chaired by the Minister, who coordinates economic affairs and consists of ministers, heads of institutions, governors, regents/mayors, and/or chairs of regional people's representative councils. Membership of the Regional Council is determined by Presidential Decree based on a proposal from the Minister who coordinates economic affairs vide Article 6. In addition, the procedures and determination of the Concession Body are also confirmed, namely that the Concession Body is formed by the Regional Council, which consists of the Head, Members and Employees and is responsible to the Regional Council. Specifically, the Head and Members of the Business Body are appointed and determined by the Zone Council vide Article 10, paragraph 2.

The second is the Implementation Aspect. Previously, there was ambiguity and uncertainty in the regulation of the implementation of authority. In addition, the authority of the Concession Agency in terms of licensing is still limited, with some authority remaining in the hands of State Ministries/Institutions and Regional Governments. PP no. 41 of 2021 has been updated, which includes several aspects, such as changes in the granting of licensing authority. Currently, the Concession Agency plays a full role in the licensing process.²²

Third, the aspect of providing fiscal facilities. Previously, there were often findings of misuse and inaccuracy in the provision of fiscal facilities. The practice of importing prohibited goods that violate the law is also an issue that needs to be addressed. In addition, there is an expansion in the scope of providing fiscal incentives for consumer goods. Through PP No. 41 of 2021, reforms have been carried out by providing import duty exemption facilities, sales tax on luxury goods, value added tax, as well as providing excise facilities in accordance with the provisions of laws and regulations in the excise sector.²³

²² Article 20 Paragraph 1 letter (a) regulates that the Concession Agency has the authority to issue all Business Permits for entrepreneurs who establish and run businesses at KPBPB to develop economic activities.

²³ Arif Budiman, "Pengaturan Pengawasan Lalu Lintas Barang Kena Cukai Pada Kawasan Perdagangan Bebas (Studi Pencabutan Fasilitas Cukai Pada Kawasan Perdagangan Bebas)." *UNES Law Review* 3, no. 4 (2021): 392-405. <https://doi.org/10.31933/unesrev.v3i4.202>

This is in line with the definition of Free Trade Zones and Free Ports as regulated in Article 1 paragraph 1 PP No. 1 of 2021, in essence, states that free trade and free port areas or abbreviated as KPBPB, refer to an area located within the legal territory of the Unitary State of the Republic of Indonesia, which is separate from the customs area. This area is free from import duties, value-added tax, sales tax on luxury goods, and excise.

3.2. Implications *Free Trade Zone* towards improving the economy in Batam City

The establishment of a free trade area or *Free Trade Zone*, according to Torres A. Raul, is "to provide convenience in the free zone by providing benefits and management of business in the area. With the aim of implementation *Free Trade Zone*, then the function of its implementation is to provide an opportunity for the domestic area that has been designated as a free trade area to have cooperative relations with foreign countries in order to accelerate the development of the domestic and national economy.²⁴ Additionally, roles *Free Trade Zone* in providing convenience in various fiscal policies can also be interpreted as industrial development policy, whereby providing various conveniences in the economic sector, it is hoped that in the end the regional comparative advantage factors can be optimized and can also accelerate development and economic growth in a region. From the implementation of policies free *Trade Zone* It is also hoped that economic growth in Indonesia will grow and develop to be much better than what it is now.²⁵

The benefit of the existence of a *Free Trade Zone* in Indonesia, according to expert discussions, is that it positively impacts the economic conditions of the investor country, especially in terms of growth and income levels. This has the potential to influence the improvement of the domestic economy through three main aspects. First, through increasing the value of exports that occurs through trade activities. Second, by increasing direct and portfolio investment in financial relationships. Third, through the geographical position and economic conditions of the investor country, which provides indirect influence from investors and consumers in the investor country to other countries, creating a comparative advantage for the domestic economy.²⁶

In line with expert discussion, the area *Free Trade Zone* in Indonesia, as implemented in Batam City, positively impacts economic growth, especially seen from the Export and Import data released by the Batam City Central Statistics Agency (BPS) for 2022. Batam City's exports grew by 29.29%, from USD 12,036.56 million in 2021 to USD 15,562.16 million in 2022. Meanwhile, imports increased by 22.74%, from USD 10,835.98 million in 2021 to USD 13,299.92 million in 2022. As a result, Batam City's trade balance recorded a surplus of USD 2,262.24 million. This can be seen in Table 1 below.

²⁴ Ady Muzwardi, "Analisis Pengelolaan Pelabuhan di Kawasan Perdagangan Bebas dan Pelabuhan Bebas (KPBPB) Batam." *Government: Jurnal Ilmu Pemerintahan* 9, no. 1 (2016): 31-38. journal.unhas.ac.id

²⁵ Wishnu Kurniawan, "Free trade zone sebagai salah satu wujud implementasi konsep desentralisasi." *Jurnal Selat* 4, no. 2 (2017): 160-189. <https://ojs.umrah.ac.id/index.php/selat/article/view/196>

²⁶ Syawitri Pertiwi Bawon, "Dampak Perdagangan Bebas pada Era Globalisasi di Indonesia dalam UU No. 44 Tahun 2007 tentang Kawasan Perdagangan Bebas." *LEX PRIVATUM* 8, no. 2 (2020). 154-163. <https://ejournal.unsrat.ac.id/index.php/lexprivatum/article/view/29793>

Table 1. Batam City Export and Import Value 2018-2022 (Million US\$)

Years t	Ekxport	Impor
2018	9.507,43	8.925,68
2019	9.674,45	8.539,44
2020	9.522.10	8.510,26
2021	12.036,56	10.835,98
2022	15.562,16	13.299,92

Source: BPS Kota Batam

This data shows the important role of exports and imports in supporting economic growth. Exports make a significant contribution by contributing foreign exchange through sales of goods and services abroad, which can be used to increase domestic economic growth and support development. A study conducted by Hanifah²⁷ shows that exports also play a role in increasing industrial growth, strengthening domestic competitiveness, and providing greater economic benefits, which, in the end, can improve people's living standards and welfare. Apart from that, import activities also play an important role in improving the economy. Through imports, countries can obtain goods or services that are not efficiently produced locally but with better quality and cheaper prices in other countries. This contribution does not only apply to Batam City but also has a national impact, as explained by Nafla Imtinan et al.²⁸

The importance of international trade was also stated by Ngatikoh & Faqih²⁹ which states that exports and imports can improve cooperative relations between countries and help reduce trade barriers. With international trade, a country can expand its market to the global level, which has a major impact on improving the overall economy. Lastly, Supiyadi & Anggita³⁰ highlight major policy contributions *to trade zones* in providing exemption from export and import duties, directly contributing to economic growth in Batam City and having a positive impact nationally. Thus, the conclusions from the expert discussions and the data presented show that implementing the Batam City free trade zone significantly strengthens the economy, especially through positive export and import growth.

²⁷ Siti Hodijah, and Grace Patricia Angelina. "Analisis pengaruh ekspor dan impor terhadap pertumbuhan ekonomi di Indonesia." *Jurnal Manajemen Terapan Dan Keuangan* 10, no. 1 (2021): 53-62. <https://doi.org/10.22437/jmk.v10i01.12512>

²⁸ Khairani Nafla Imtinan, Noor Shodiq Askandar, and M. Cholid Mawardi. "Pengaruh Pemberlakuan Free Trade Zone Terhadap Pajak Pertambahan Nilai serta Bea Impor Barang yang Masuk ke Area Batam." *e_Jurnal Ilmiah Riset Akuntansi* 8, no. 2 (2019). 36-48. <https://jim.unisma.ac.id/index.php/jra/article/view/3672>

²⁹ Siti Ngatikoh, and Akhmad Faqih. "Kebijakan ekspor impor: strategi meningkatkan pertumbuhan ekonomi di Indonesia." *LABATILA: Jurnal Ilmu Ekonomi Islam* 4, no. 2 (2020): 167-190. <https://doi.org/10.33507/labatila.v4i02.269>

³⁰ Dedi Supiyadi, and Lia Puspa Anggita. "Peran ekspor dan impor terhadap pertumbuhan ekonomi di indonesia (2007-2017)." *Jurnal Indonesia Membangun* 19, no. 2 (2020): 1-11. <https://jurnal.inaba.ac.id/index.php/JIM/article/view/202>

Apart from exports and imports, another indicator is the rapid industrial development in Batam City. Historically, 1990 was the beginning of industrial development in Batam, in 1997 there were nine industrial areas, then grew to 21 industrial areas in 2000. Then, in 2023, there will be 30 industrial areas in Batam. This area is filled with various companies operating in various sectors. There are two types of industry developed in Batam City, namely the manufacturing industry and the service industry. The developed manufacturing industry covers various sectors, such as electronics and electricity, medical equipment, industrial machinery, construction, shipbuilding and oil and gas equipment, computer software, networks, information technology services, communications equipment, semiconductors and other electronic components, and spare parts. Vehicle and motorbike spare parts. Meanwhile, the service industry includes logistics, tourism, aircraft maintenance and repair, Repair and Overhaul (MRO), health, education and the financial sector.³¹

The increase in the number of industrial areas in Batam certainly cannot be separated from the trend of a significant increase in investment. This investment can come from the government or the private sector, where the government focuses on investment in infrastructure development. In contrast, the private sector is divided into domestic and foreign investment.³² Foreign investment or foreign investment plays an important role in the economy of Batam City, reaching 80% of the total economy. The Free Trade Zone plays an important role in maintaining or attracting new investments. Easing regulations removes obstacles for investors, making the economy easier. Implementing the Free Trade Zone policy in Batam City is expected to positively impact industrial progress and modernization as an integral part of international trade.³³

Table 2. Batam City Investment Data 2018-2022

Years	PMA	PMDN	Total
2018	7,67 T	3,18 T	10,85 T
2019	10,62 T	4,88 T	15,5 T
2020	9,28 T	13,69 T	22,97 T
2021	7,36 T	7,52 T	14,88 T
2022	11,11 T	2,52 T	13,63 T

Source: LKPM/Kementerian Investasi

Based on Table 2, it can be seen that the total investment value of Batam City in 2022 will reach 13.63 trillion, consisting of Foreign Investment (PMA) of 11.11 trillion (85%) and Domestic Investment (PMDN) of 2.52 trillion. In comparison, the total investment value of Riau Islands in 2022 will reach 18.71 trillion, with PMA amounting to 13.89 trillion and

³¹ <https://bpbatam.go.id>

³² Raja Hardiansyah, "Analisis Implementasi Kebijakan Pulau Bintan Sebagai Free Trade Zone (FTZ) Terhadap Investasi di Bintan." *Jurnal Benefita* 1, no. 3 (2016): 163-176. <https://doi.org/10.22216/jbe.v1i3.882>

³³ Desrini Ningsih, and Selvi Indah Sari. "Pengaruh Investasi dan Tenaga Kerja Terhadap Pertumbuhan Ekonomi di Kota Batam." *Jurnal Akuntansi Bareleng* 3, no. 1 (2018): 21-31. <https://forum.upbatam.ac.id/index.php/jab/article/view/842>

PMDN amounting to 4.82 trillion. There are ten main sectors that make a large contribution to investment value in Batam City, including the electronics, machinery, electrical equipment, precision, medical instruments, optics and clock industries; chemical and pharmaceutical industry; food industry; housing, industrial areas and offices; basic metal industry, metal goods, non-machinery and equipment; trade and repairs; transportation, warehouse, and telecommunications; motor vehicle and other means of transportation industry; rubber and plastics industry; as well as hotels and restaurants.³⁴

Investment flowing into Batam City is not only an important step in supporting the city's economic growth but also has the potential to have a positive impact in the long term. These investments open up opportunities for economic growth and enable the use of developing technologies. Apart from that, investment can increase capital goods and improve skills through work experience and education.³⁵

Table 3. Economic Growth Rate of Batam City

Years	2018	2019	2020	2021	2022
Batam	4,96 %	5,92 %	-2,55 %	4,75 %	6,84 %
Riau Islands	5,17 %	5,02 %	-2,07 %	3,43 %	5,09 %
National	2,98 %	2,34 %	-3,6 %	3,69 %	5,31 %

Source: BPS Kota Batam 2022

Table 3 above shows the positive influence of the policy *free trade zone*, which provides easy facilities for carrying out export, import and investment activities in Batam City; these facilities significantly contribute to improving the city's economy³⁶. As in Table 5, Batam City's economic growth rate increased from 2018 to 2019, decreased in 2020 due to the impact of the pandemic, but increased again in 2021 and reached its peak in 2022. In the last year, economic growth in Batam reached 6.84%, recording the highest figure in the last five years.³⁷

4. Conclusion

Policy *Free Trade Zone*, with its various incentives in Batam City, has made a major contribution to improving the economy of Batam City. This can be seen from the growth of several sectors, such as exports, imports, industry, and investment, as well as economic growth that has occurred in recent years. The implementation of the Free Trade Zone policy

³⁴ Mandala Harefa, "Struktur Pertumbuhan Ekonomi dan Sektor Potensial Kota Batam dan Kabupaten Karimun Provinsi Kepulauan Riau." *Jurnal Ekonomi & Kebijakan Publik* 4, no. 2 (2013): 175-193. <https://www.academia.edu/download/62247312/52-142-1-SM20200302-3816-6zrlsm.pdf>

³⁵ Latisha Sarah, and Ety Soesilowati. "Kontribusi penanaman modal dalam memajukan perekonomian Kota Batam." *Management Studies and Entrepreneurship Journal (MSEJ)* 3, no. 2 (2022): 618-627. <https://doi.org/10.37385/msej.v3i2.503>

³⁶ Nur Kholidah Berlian, Linayati Lestari, and Rahmayandi Mulda. "Pengaruh Kebijakan Kawasan Perdagangan Bebas Terhadap Perkembangan Daerah di Kota Batam Periode Tahun 2010-2014." *Jurnal Trias Politika* 2, no. 1 (2018): 40-54. <https://doi.org/10.33373/jtp.v2i1.1237>

³⁷ BPS Kota Batam, 2022

not only affects the economy in Batam City but also influences the national economy. These findings show that this policy has been implemented effectively, but it still needs intensive and continuous supervision from the Batam City government so that the objectives of this policy are more focused and systematic.

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