

Administrative Reform of Batam Indonesian Free Zone Authority (BIFZA) in Implementing Free Trade Zone (FTZ) in Batam City Indonesia

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Abstract

This research based on administrative reform undertaken by Batam Indonesian Free Zone Authority (BIFZA). Administrative reform consist of structural aspects/institutional and human resource aspects. Administrative reform in the body of BIFZA implemented because there was legalized for Batam as Free Trade Zone in 2009. Previously, the development of Batam conducted by an agency formed by the central government named Batam Industrial Development Authority (BIDA) and this was the one reason of BIDA did the administrative reform and changed the name to BIFZA. This research use qualitative research with descriptive approach, where the data are primary data and secondary data. The result of this research founded that BIFZA indeed has administrative reform in the body. Administrative reform in terms of structural/institutional consist of organizational structure, authority and procedure, that BIFZA has done a lot of changes. Organizational structure in BIDA's was a simple organizational structure and administrative reform after the addition of an organizational structure that makes BIFZAs organizational structure to be more numerous and large. In terms of authority, after the administrative reform a lot of authorities delegated by central government to BIFZA, whereas in terms of procedures, all procedures of investment and foreign investment has been made online to support the implementation of Batam Single Window. In terms of human resources, which in this case can be divided into education, training and development of employees found that BIFZA did not conducted the education, training and development for employees. Furthermore the results of the administrative reform that have been carried out by BIFZA in terms of import and export, both cases have increased significantly.

Keywords: Administrative Reform, Free Trade Zone, Batam Indonesian Free Zone Authority

1. Introduction

Globalization is a phenomenon that cannot be avoid by a variety of aspects start from the state, the community, the business sector and others. Like a disease, globalization is like a virus that need to immune system for all of the objects that get the impact so can be compete and not be dragged of the globalization. The spread of the virus provide by globalization can provide a variety of interactions both interactions in economic activity, society, etc. Musa (2000,p.67) says "globalization is not a new phenomenon. It can be loosely defined as the increasing interaction among, and integration of, the activities, especially economic activities, of human societies around the world".

As has been described earlier, the most frequently echoed in globalization was world trade and international cooperation. One form of the world trade that becomes famous in many countries, especially developing countries such as Indonesia is Free Trade Zone (FTZ's). Shavin (2008,p.7) said that there were many benefits of come from FTZ's if it implemented in a country. The main concept behind FTZ's is that they are an alternative policy framework initiated by governments to promote exports, reduce unemployment, and attract Foreign Direct Investment (FDI). From some the informations have been submitted, if a country or region deemed ready and able to implement the FTZ's policies and have the supporting facilities for the successful of FTZ's then it will get a lot of benefits. For Indonesia itself, one of the area considered to be mature and ready to be applied the FTZ's policies is Batam City.

In the 1970's Batam was developed as a logistics and operational base for the oil and gas industry by Pertamina (Batam Industrial Development Authority,2006a). Based on the Presidential Decree Number 41 Year 1973, the construction of Batam entrusted to government agencies called Batam Industrial Development Authority (BIDA). This activity lasted long enough that over the decades. But since 2007 the central government enacted Government Regulation Number 46 Year 2007 about Free Trade and Free Port Batam where in April 2009 President Susilo Bambang Yudhoyono inaugurated Batam as Free Trade Zone (FTZ's), the authority held by BIDA revoked and replaced by Batam Indonesian Free Zone Authority (BIFZA). Regulations regarding the legalization of Batam Free Trade Zone made BIDA did administrative reform in its institutions because of the demands of the passage implementing the FTZ and also for running the mandate of Government Regulation No. 46 Year 2007. As has been described earlier that BIFZA is an agency / institution of central government, the administrative reforms undertaken in the body of BIDA become BIFZA be done with a top-down models. Top-

down models assume that political leaders perceive problems or develop innovative ideas by reforming the public sector. One of these models is the *administration as usual*, which is commonly used in the real world of public administration, where perceived needs for reform are determined at the top (Farazmand,2002,p.3).

Indeed, talk about the administrative reform will be hampered by the absence of a definition is not universally accepted. This is caused by the fact that many of users if this theory use the different term. Zauhar (2007,p.11) defines administrative reform as a conscious and deliberate effort to change (a) Structural and bureaucratic procedures (organizational and institutional aspects), (b) The attitude and behavior of bureaucrats (behavioral aspects) in order to increase the effectiveness of the organization or creation sound administration and ensuring the achievement of national development goals.

Administrative reform undertaken to BIFZA provide fresh air to the survival of FTZ in Batam city, especially in terms of trade and investment. This is because the implementation of the Free Trade Zone in Batam provides various facilities namely the exemption of import duty, VAT and luxury sales tax and customs procedures and export documentation and import more simple and make Batam as excellent for shipbuilding companies (shipyard) and stuff electronics. As is known that, in the administrative reform divided into structural aspects of reform (institutional) and from the aspect of human resources.

For BIFZA itself, clear that BIFZA in terms of structural reforms (institutional) seen clearly that the organizational structure of the BIDA and BIFZA changed at all, although there are still areas where retained, added, or removed as described. But if we see the ideal concept of structural integrity field of administrative reform (institutional) requires a slim organizational structure. In contrast, the current organizational structure of BIFZA not slim, even increased.

Next, in terms of human resources. After the administrative reform BIDA become BIFZA by Government Regulation Number 5 Year 2011 concerning Amendment to the Government Regulation Number 46 Year 2007 concerning free Trade Zone and Free Port Batam in Article 3 paragraph (2) states that employees on Batam Industrial Development Authority (BIDA) was converted into an employee of the Batam Indonesian Free Zone Authority (BIFZA) Free Trade Zone and Free Port Batam. It become confusing because the duties and authority carried by employees BIDA was not equal to the task and authority employees of BIFZA and more difficult workload. In addition, the settings in this article do not reflect ideally a human resources within a public organization. Due to the ideal of creating an organization that needed a training, training, employee development. Ineffective BIFZA both in terms of institutional and human resources that are the result of administrative reform will fear it would impact on the sustainability of the implementation of the FTZ in Batam.

2. Conceptual Explanation

2.1 Globalization

The term of “globalization” means different things to different people. In short term, globalization can be defined as the circulation of goods, services, capital, information, ideas, and people to and from all the way across the world. The process of globalization has fundamentally changed the face of the world, and it is mainly caused by two factors driving, the policies of countries in the world to open up to each other on various aspects and development of information technology (Bahagijo,2006,pp.23-24). However, there seems to be general agreement that the term refers to the process of increased international economic integration driven largely by technological advances in transport and communications.

Globalization is also very strong with economic activity in which the several branches such as world trade, co-operation etc. are also the scope of economic activity. As quoted by Khor as follows:

“The most important aspects of economic globalization are the breaking down of national economic barriers, the international spread of trade, financial and production activities and the growing power of transnational corporations and international financial institutions in these processes (2001,pg.67)”.

Furthermore, the World Bank said that globalization summarized as the global circulation of goods, services and capital, but also of information, ideas, and people (2000,p.1). As a closing statement about the meaning of globalization, Patriadi said that globalization is the process of increasing interconnectedness between societies such that events in one part of the world more and more have effects on peoples and societies far away and globalization refers to all those process by which the people of the world are incorporated into a single world society, global society (Personal communication, July 6th 2012).

2.2 Free Trade Zone

Today, the international community witnessed the emergence and development cooperation Free Trade Zone (FTZ) conducted both bilaterally and regionally. Shavin gives his views on FTZ is A geographically –restricted place, or a specific industry/company located within a country, which provide exemption from import and export duties, a liberal regulatory regime, and/or tax and other incentives, which are not available beyond the zone area and are intended to create a relatively barrier-free environment that encourages business to increase imports to, exports from, and/or manufacturing in the host country. (2008,p.4).

2.3 Decentralization

Decentralization comes from the Latin language support, meaning that loose and Centrum means the center. Decentrum means release from the center. Thus, decentralization is not broken at all to the center, but away from the center (Nurcholis et al, 2009, p.7). Based on that right makes decentralization entered its heyday, where it can be seen that every country in the world both developed and developing countries in the implementation of decentralized administration.

Decentralization in view Rondineli as quoted by (Nurcholis et al, 2009, pp.11-15) include deconcentration, devolution, delegation (delegation to semi-autonomous agencies), and privatization (the transfer of government functions to non-governmental organizations). For more details, it will be explained as follows:

1. Deconcentration is the delivery workload from central ministries to senior officials who were in the area. The delivery was not followed by the decision making authority and discretion to do so.
2. Devolution is the release of certain functions from the central government to create a new unit of government that is not controlled directly. Aim to strengthen the devolution of governmental units under the central government by delegating functions and authority. Devolution in its purest form, has five fundamental characteristics, as follows:
 - a) Local government units are autonomous, independent and clearly separated from the lower levels of government. The central government does not exercise direct supervision against him.
 - b) The unit of government is recognized to have a clear geographical boundaries and legal, who have the authority to perform common administration tasks.
 - c) The local government status as a legal entity and has the power to manage and utilize the resources available to support the execution of his duty.
 - d) The local government is recognized by citizens as an institution that would provide services to the community and meet their needs. Therefore, the local government is able to exercise authority against citizens.
 - e) There is a mutually beneficial relationship through coordination between central and local governments as well as other organizational units within a system of government. Therefore, the local government is part of the national government, and not as an independent element of the central government. In this devolution there is no hierarchy between the local government to another local government for which the system is coordination and mutual relationship of one unit to another unit independently and reciprocity.
3. Delegation (Delegation of Powers in Semi Autonomous Institutions). In addition in the form of deconcentration and devolution, decentralization can also be done by delegating decision-making and administrative authority to organizations that perform certain functions that are not under the control of central ministries. As we know that there are organizations in a government-organizations that perform certain functions with the authority of a somewhat independent. These organizations sometimes not placed in regular government structure. For example, State Owned Enterprises, such as Telkom, the Bank, the toll road authority bodies. Against such an organization was basically given the authority to carry out the semi-independent functions and responsibilities. Delegation was led to the removal or creation of broad authority to an organization that is technically and administratively capable of handling both planning and implementing. All the activities carried out are not getting direct supervision of the central government.
4. Privatization (Submission of central government functions to the Institute of Non-Government) is an act of granting authority from government to voluntary bodies, private and governmental organizations can also be a fusion or government agency to a private entity, say state and local enterprises into PT.

2.4 Administrative Reform

Reform is a thing that is often heard and very popular in Indonesian society. Much understanding can meet when it comes to reform. Rewansyah (2010, p.117) said that the word is used as a term reform collective effort, and corrective to the distortions, inequality, injustice, and authorities act contrary to common sense that was launched by a group or those who feel oppressed. While Sedarmayanti (2009, p.67) defines reform is a process means a systematic, integrated, and comprehensive, aimed at the realization of good governance. From some of these opinions it can be seen that the reform efforts undertaken a systematic, integrated, comprehensive effort to improve the nature and bring about a change towards the better in order to realize good governance.

Associated with the administrative reform, Caiden in Zauhar (2007,p.6) defines that as the administrative reform of the administrative Artificial transformation against resistance. The definition of Caiden contains some implications that: (a) the administrative reform is an activity that is enumerated by humans (manmade), is not incidental, automatic and natural, (b) administrative reform is a process, (c) resistance in conjunction with the administrative reform process.

So is the case with Zauhar (2007, p.11) in his book said that administrative reform is a conscious and deliberate effort to change: (a) structure and bureaucratic procedures (reorganization or institutional aspects), (b) the attitudes and behavior of bureaucrats (the behavioral aspects), in order to improve the effectiveness of organizations or the creation of a healthy administration and ensuring the achievement of national development goals. Dror in (Suaedi & Wardiyanto, 2010, pp.10-11) also said that “administrative reform is the planned change to the major aspects of administrative ... administrative reform according to Dror, is expressly ruled out changes in organizational and administrative procedures and concentrate on minor changes in primary or elementary only, so that the administrative reform it will be effective if well designed appropriately, by considering and engaging environment in which reform was held”.

3. Statement of the Problems

Administrative reform that have been carried out by BIFZA make BIFZA changing in terms of institutional structure, authority, human resources, etc. Administrative reform in BIFZA body is also one way to achieve the purpose of Free Trade Zone (FTZ) like increasing the value of investment, export and import activities in Batam City Indonesia. The problems can be stated as follow: How is the Administrative Reform of Batam Indonesian Free Zone Authority (BIFZA) in Implementing Free Trade Zone in Batam City Indonesia? And How is the Result of Batam Indonesian Free Zone Authority (BIFZA) in Implementing Free Trade Zone in Batam City Indonesia?

4. Methodology

This research use qualitative research with descriptive approach, where the data are primary data and secondary data. The technique of data collection are using observation method, interview, also documentation method. The research instruments are the researcher, interview directive, and field note. Whereas the data analysis models consist of data reduction, the display data and take verification/take the summary.

5. Result and Discuss

5.1 *Administrative Reform of Batam Indonesian Free Zone Aunthority (BIFZA) in Implementing Free Trade Zone in Batam City*

Batam Indonesian Free Zone Authority (BIFZA) is formed by a central government that have responsible for the implementation of Free Trade Zone (FTZ) in Batam. If we looked flash back based on the existing history, BIFZA formerly had the name is Batam Industrial Development Authority (BIDA) which has the duty and authority to control the development of infrastructure and the development of Batam Island as an industrial area and activities over the ship, plan the installation and operation of infrastructure needs and other facilities, accommodating and examine the application and ensure smooth business license and permit ordinances order to encourage the flow of foreign investment in Batam.

Management and development of Batam City by BIDA run long enough, but since 2007, central government legalized Government Regulation No. 47 Year 2007 about Free Trade and Free Port Batam so that Batam legalized as a Free Trade Zone in 2009, and made BIDA did the administrative reform so that renamed to BIFZA. Administrative reforms in the BIDA's body into BIFZA is an administrative reforms carried out by the top-down models.

After the administrative reform carried out, then a lot of the changes that occur in the body of BIFZA, start from the structure, authorities, procedures up to the human resources (employees) owned by BIFZA. This is because if we look at the sense of administrative reform is a conscious and deliberate effort to change: (a) structure and bureaucratic procedures (institutional aspects), (b) the attitude and behavior of bureaucrats (behavioral aspects), in order to improve the effectiveness of the organization or the creation of sound administration and ensure the achievement of national development goals (Zauhar,2007,p.11). Here will be explained in detail on the results of administrative reform has been carried out by BIFZA in organizing the Free Trade Zone in Batam.

1. Structural Aspect
 - a. Organizational Structure

Batam Indonesian Free Zone Authority (BIFZA) has conducted administrative reforms in the organizational structure. In the old organization in BIDA's time the structure is simpler than the organizational structure made by BIFZA. This situation cannot give the problems because all of the units of the new organization can focus in implementing their activities especially in Free trade Zone activities. Beside that, they can achieve their purposes that already taken by this organization.

- b. Authority

Delegation of authority is owned by BIFZA as an institution that has the authority to complete the implementation of the Free Trade Zone in Batam. To trace back the history before BIFZA reformed, since 1970 Batam was developed as a base logistic and operational for the industry of oil and gas by Pertamina (Batam

Industrial Development Authority, 2006). Then based on Presidential Decree No. 41 Year 1973, the construction of Batam entrusted to government agencies called Batam Industrial Development Authority (BIDA). Authority possessed by BIDA as development agencies Batam make Batam was a small island ordinary transformed into a city that development growth city very quickly. Over time, the status of Batam turned into a city that has a distinctive compared to other regions in Indonesia such as Batam Bonded Zone. Bonded Zone is an area with specific boundaries in the customs territory of Indonesia which also imposed special freedom in the field of customs, namely the goods are put on the outside of other Indonesian customs areas without first imposed levy customs, excise and levies other countries until the goods are removed for export and import activities (Muliono, 2001,p.125).

Privilege in Batam city is making BIDA as the agency given responsibility in the implementation of these has the authority, among others:

1. Development of infrastructure and control the development of Batam Island as local industry and activity over a ship
2. Plan the installation and operation of infrastructure needs and other facilities
3. Collect, examine the application and ensure smooth business license and permit ordinances order to encourage the flow of foreign investment in Batam

As for the problem in terms of the licensing authority, the delegation of authority from the central government which is owned by BIDA Batam are:

- 1) Licensing Planning Fatwa
- 2) Cut Licensing and Field
- 3) Licensing of Land Allocation
- 4) Licensing Location Point Advertising
- 5) Company Registration Decree of the Indonesian Investment Coordinating Board
- 6) Permanent Business License

Authority would Bonded Zone is owned by the city of Batam last long however, since 2007 the central government enacted Government Regulation No. 46 Year 2007 about Free Trade and Free Port Batam and in April 2009 President Susilo Bambang Yudhoyono inaugurated Batam as Free Trade Zone that authority owned by BIDA replaced by BIFZA. This is the beginning of the reform administration in the body of this institution in particular in terms of authority. Authority possessed by the Batam Indonesian Free Zone Authority (BIFZA) as an institution that has the responsibility for the implementation of the Free Trade Zone (FTZ) in Batam is the authority that all these powers are very supportive to the successful passage of FTZ. Many of authority possessed by the central government as the problem of investment licensing authority should be owned by the Ministry of trade on, then Import Recommendation Horticultural Products from the Ministry of Agriculture have all been handed out and delegated to BIFZA Batam. To be able to clarify any authority possessed by BIFZA Batam, it can be broken down as follows:

- 1) The right to land management that covers all land managed BIDA and the Batam City Government;
- 2) Financial management that provides flexibility in the form of flexibility to apply sound business practices, as an exception from the provisions of the financial management of the state in general;
- 3) Provision of investment licenses and import permits goods industry;
- 4) Issuing permits on traffic out of the goods owned by the Secretary of Commerce, such as:
 - a. IP Licensing Plastics and Plastic Scrap
 - b. Licensing IT-PT
 - c. Permitting IT Discs
 - d. IT Licensing Agricultural Equipment
 - e. Clearance Salt
 - f. Clearance Photocopy machines and color printers.
 - g. New Capital Goods Licensing Income
 - h. Clearance Loading and Unloading
 - i. Special Ports
 - j. Naval Discharge Permit
- 5) In the near future BIFZA will receive the delegation of authority issuing Recommendations Horticultural Products Import (RIPH) from the Ministry of Agriculture.

Decentralization already given by central government to BIFZA like a delegation of authorities in the foreign investment part and Foreign Direct Investment not give the lack authority with local government of Batam. All of the authorities about investment and the license of foreign investment are the authorities of BIFZA. The authorities conducted by local government of Batam are all of the authorities already legalize in the legalization of autonomy (Legalization Number 32 Year 2004 About Local Government).

For investment business to foreign corporation that become BIFZA's authorities are the investment that have the number of capital \$1 Billion Dollar, and under that capital become the local government of Batam authority.

c. Procedure

Based on the results of the research conducted at the Office BIFZA Batam city, especially with regard to the reform of the licensing system and procedures of investment services and investment especially in the Free Trade Zone of Batam is said that the change from the old system to the new system in which both the system and procedure mechanism are able to deliver a service of licensing services in the areas of investment and investment is much more effective and efficient we can see from all of the procedures has been done with online system. All of about investments and investment made by using the technology and information.

Sinambela (2010,p.65) says that government bureaucracy can work well if the bureaucracy can manage services with good, clear and transparent procedures. Furthermore Dwiyanto (2008,p.232) also says that the procedure is lengthy and complex services will create a hefty fee for the users in getting the service, and therefore need to apply a mechanism that is able to overcome these problems. Through delegation of authority that previously described from the central government to BIFZA, then in terms of procedure in investment and capital investment, urban design fatwa, investment registration service, general licensing procedures, procedures for land acquisition and building in the city of Batam Free Trade Zone has been done online system. It can be seen in the official website <http://www.informasipelayanan.bpbatam.go.id> BIFZA Batam. All requirements regarding investment can already be seen on the official website BIFZA Batam, although Batam, Single Window is being prepared for the future. Based on this we can conclude investment procedures in the implementation of the Free Trade Zone (FTZ) in Batam is done online, all matters relating to the terms of the investment can already be seen in the official website BIFZA Batam (www.bpbatam.go.id).

However, not completely done online, there are still done manually. Because BIFZA through IT Center preparing Batam Single Window and all of about licensing practices will all be done in Batam Single Window. The procedure for licensing services should be able to load the clear and simple procedures. Minimum service standards as a public service provider guidelines should be implemented. Asropi (2007, p.9) says that in order to realize the investment administration service system which has the characteristics of an efficient and effective, a strategy needs to be developed is through the establishment of a service unit has special authority in granting investment licenses and investment fields. In this regard with the authority of the central government given to BIFZA as an institution that has the authority and high competence in the implementation of investment and investment in the Free Trade Zone of Batam demanding procurement and use of Information Technology in the procedure so that the Batam Single Window being promoted as innovative breakthrough in order to increase the value of investment in Batam. By implementing a Batam Single Window is expected to accommodate the desires of the business community in obtaining services, especially in terms of investment and investment procedures are effective and efficient. Further expected to Batam Single Window system can be more attractive to foreign investors to invest in Batam so that the ideals and objectives from Free Trade Zone can be achieved.

2. Human Resources Aspect

a. Education and Training

After the administrative reform, in BIFZA there's no training and education for employees. This is happens because there's no legalization said about the education and training must be done by BIFZA. Beside that, the employees of BIFZA think that what they done about their tasks is almost same with what they done in BIDZA's time, so for them education and training is not important for this time.

b. Development

Employee development is one part of the education and training of employee in order to improve the performance. For BIFZA own employees, training and development not done and also the employee development. Nevertheless, the existence of IT Center by BIFZA Batam to prepare Batam Single Window. So the development of employee of BIFZA that understand and know about technology and information must be have in the planning system to get the Free Trade Zone successful.

5.2 The Result of Batam Indonesian Free Zone Authority (BIFZA) in Implementing Free Trade Zone in Batam City

Batam Industrial Development Authority's (BIDA's) authority possessed to developing of Batam has been running for years. In addition, with the increasing levels of investment and capital investment both foreign and domestic capital, the status of the status of Batam Bonded Zone is no longer able to accommodate these activities, especially in terms of exports and imports. As was explained that the bonded zone is an area with specific boundaries in the Indonesian customs area in which special provisions apply in the field of customs, the goods entered the customs area from outside or from within other Indonesian customs area without first being charged fees customs, excise or other state levies until the goods are removed for export or re-export. Based on the proficiency level in 2007, the central government enacted Government Regulation No. 46 Year 2007 about Free Trade and Free Port Batam and in April 2009 the President of Republic Indonesia inaugurated as the Batam Free

Trade Zone and the authorities of the BIDA replaced by Indonesian Batam Free Zone Authority (BIFZA) Batam. This was the beginning of reform in the administration of this government agency body.

Implementation Batam as Free Trade Zone forced BIDA to perform administrative reform was carried out by the Central Government. Administrative reforms that occurred happened starting from the institutional aspect to the human resource as discussed previously. Because most of the focus of the activities of the Free Trade Zone is the import and export activities, it will explain the import and export activities in the city of Batam after Batam as a Free Trade Zone is established by the Central Government as follows:

a. Import

The growth of import in Batam City after Batam as Free Trade Zone, trend in the value of imports increase. This happens because Batam is a city that has free on import duty focusing on import. Beside that, all of the authority permits of licensing given by central government to BIFZA as the legal institution. The delegation of authority is to issue Importer Identification Number through the Chairman of the Board Regulations Trade Zone and Free Port Number 1 Year 2013 about Procedures for Implementing Issuance Import Identification Number in the Free Trade Zone and Port of Batam

b. Export

Export value in the city of Batam after establishment Batam as a Free Trade Zone is relatively increased. This is because all the products that are part of the investment are export oriented. Furthermore, one of the reasons for the high export value in Batam after the Free Trade Zone is due to the growth of investment in Batam from year to year is increase and have a tendency to increase. Companies and investors that the company has been established now so that they expand the production capacities increase. Therefore with certainty be a direct impact on export value.

6. Conclusion

Administrative reform of Batam Indonesian Free Zone Authority (BIFZA) in Implementing Free Trade Zone is almost successful. We can see in institutional aspects especially in organizational structure there was an administrative reform. But in this case, there's no administrative reform in human resources aspects. Although, the result that has given by administrative reform in BIFZA gives support to import and export activities in Batam City which significantly increase.

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