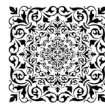


# **BATAM FREE TRADE ZONE**

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## Introduction

*Working here is like preparing delicious food for Singaporeans. We work hard to serve a very delicious meal...Singapore tastes it and sends us back the waste. We never enjoy the food. We're like their 24-hour kitchen, working with hazardous chemicals and materials...they earn the profit and we have to suffer for the rest of our lives (a worker in an electronics plant in Batam during a workshop organized by AMRC and FSPMI in July 2010)*

This research paper on the Batam Free Trade Zone, part of the AMRC project looking at the development of export processing zones in Asia and the impact of these zones on workers and the community, focuses on the development trajectory of the Batam Free Trade Zone (FTZ) as Indonesia's pilot project for the establishment of special economic zones on its major islands.

The development of the electronics supply chain in Singapore has played a prominent role in shaping an industrial enclave in Batam. The restructuring of electronics production in Singapore, which resulted in a shift from low end to high end or high value-added production, was greatly aided by the involvement of the national government. Electronics has been chosen as the main sector covered in the research. This is also related to the Indonesian government's plan to promote the country as the third major electronics manufacturing centre in the world.

In studying Batam, the concept of territorial logic of power is adopted, in which Singapore, emerging as a centre of a dynamic regional economy, is taken into account. This includes the political negotiations between the Indonesian and Singaporean governments in complying to the standard of global exchange. Included in this is the process of hinterlandization by Singaporean government, meaning the zoning of neighbouring countries to secure access to land and cheap labour for its own capital industries. This paper also discusses the political negotiations and dynamics in the region that finally led to the signing of the Indonesia-Singapore Framework Agreement in 2006. Institutional arrangements and a regulatory framework were then made complying with this agreement.

Beginning with Batam as a pilot SEZ project, the Indonesian government planned to establish SEZs and an economic corridor on the major islands of Indonesia. The House of Representatives passed the new Spatial Planning Law<sup>1</sup> and SEZ Law in accordance with the government's plans. Controversy surrounding this plan has arisen with the draft of the Land Procurement Law. The law would

legitimize primitive forms of accumulation by dispossessing people of their land to serve the interests of corporations.

Our research involved interviews and discussions with the Federation of Indonesia Metal Workers Union-Riau Islands (Federasi Serikat Pekerja Metal-Kepulauan Riau, FSPMI Kepri) and some activists. The discussions were intended to capture workers' responses to their working conditions as well as their organizing strategies. For a decade, workers in Batam have decried the flexibilization of the labour market curtailing the union's power. The migration of people from other regions, followed by social tensions arising from land disputes and a low-wage, race-to-bottom competition for livelihoods all create social conditions requiring innovative strategies or organizing methods by trade unions in the zone.

Ignoring these issues, the government has continued their ambitious plan to establish SEZs on the major islands of Indonesia. The construction of infrastructure has evicted thousands of people in urban and peri-urban areas. Landless and losing their livelihood, they have been pushed into the informal economy. Meanwhile in the rural areas, with the creation of downstream industries by natural resources-based companies, the SEZ have the potential to increase the number of protracted land disputes in Indonesia.

The SEZs are expected to bring millions workers into the formal economy. Yet, the normalization of informality applies here. Export zones exemplify the blurred line between regulated and unregulated activities. They afford "extraterritorial status" that enables firms and transnational corporations to enhance their profits by typically reducing and even eliminating many financial, social and moral responsibilities, effectively evading a variety of costs, including tariffs, taxes, worker benefits or employment protection, union demands and basic infrastructure (Young 2001,32 cited in Peterson 2003).

This research itself is intended to stimulate more discussion on organizing strategies for the zones. It also studies the political negotiations between Indonesia and Singapore to remove trade and investment barriers. Also included here is the negotiation between national and provincial administrations on spatial planning. The incompatibility of unfettered market power, which is facilitated by the state, with the political power of people's organizations requires an organizing strategy that enables the oppressed to exercise their political bargaining power.

## Development Trajectory of Batam Free Trade Zone

### **Singapore-Indonesia: Surplus wealth spilling over to neighbours through the concept of cross border regional development**

Batam is a regency in Riau Islands Province with a population of around one million and covers an area of 715 sq. km. It has 21 industrial parks with more than 1,000 foreign companies currently in residence.<sup>2</sup> Now, Batam FTZ is one of the major electronics manufacturing centres in the world, created largely with Singaporean capital. Batam was initially designated as an industrial zone by Indonesia Presidential Decree No 74/1971. Then, Batam was declared a bonded zone for export-oriented industry through a presidential decree in November 1978. Work on the master plan for Batam Island was started in 1972 when the Indonesia government, in cooperation with Japanese and American engineering firms, carried out a study that recommended a development strategy based on the oil and gas exploration industries and related downstream energy product processing activities. (Wong and Ng 2009).

The trajectory of the establishment of the Batam FTZ must be put in the context of the development of the electronics industry in neighbouring Singapore. In 2009, electronics was the single biggest contributor to Singapore's manufacturing sector, comprising 30.6 percent of total output and, generating total output of S\$63.9 billion. In all, the industry employed more than 76,000 people.<sup>3</sup> In terms of semiconductor output, Singapore contributed to 10.9 percent of global semiconductor output, 16 percent of fabless semiconductor output and 8 percent of global wafer production starts.<sup>4</sup> Singapore also plays host to the top three foundries in the world, six of the world's top 10 fabless companies with IC design activities, and four of the world's top five outsourced semi-conductor A&T companies.<sup>5</sup>

The electronics industry in Singapore was an emerging industry in the late 1960s, with foreign companies coming to Singapore to set up assembly plants for products, such as transistors and low-end consumer electronics.<sup>6</sup> It was initiated by US-based semiconductor assembling and ICs (Integrated Circuits) testing multinational enterprises (MNEs). The industry itself was severely hit by two crises in 1970s and 1980s. In the first crisis, Singapore's foreign direct investment (FDI) inflow was disrupted by the global recession in mid-1970s. At the same time, the semiconductor industry itself had changed from a novelty product in the 1960s, to a mass produced commodity by the 1970s. That shift, coupled with the need to inject increasing amounts of capital into the production of a new generation of complex state-of-art products, made financing by the big banks and major chemical or electrical companies just as important as technological innovation for

maintaining the industry's growth and competitiveness on a global scale. (Gassert 1985)

Recovery from both crises was accelerated with the full support of the state agency, the Economic Development Board (EDB). Singapore economy has long been characterized by strong state control. This is an important aspect to take into account to explain the survival and success of electronics industry in Singapore. From the early 1980s to the early 1990s, Singapore became a key manufacturing base for original equipment manufacturers (OEM) as production costs in the OEMs' home base increased.<sup>7</sup> The Singapore government encouraged the sector's development through investment in state-owned enterprises such as Chartered Semiconductor and NatSteel Electronics.<sup>8</sup> There are four stages identified in explaining the development of the electronics industry in Singapore: manual assembly operations followed by semi automated assembly and testing and finally to highly automated assembly, testing, and the development of supporting industries supplying a whole range parts and components, introduction of new products such as disk drives. This generated another host of supporting industries, such as spindle motors, magnetic heads, thin film media and others. Following that there was the introduction of new activities, involving higher technology delegated from the parent's operation. (Natarajan and Tan 1992)

The rapid development of the electronics industry in Singapore played a prominent role in shaping the regional labour division of that industry in ASEAN countries. Cross border regional development was promoted as a framework of economic integration between developed countries and developing countries in a region. In 1994, Singapore reached developed country status as defined by OECD with an average per capita income in excess of \$US20,000. The corollary to these high rates of the economic growth was the emergence of the need to open new production sites and access cheap labour which would require institutional arrangements.

The land shortage and the need for a cheap labour supply to support the booming of electronics industry in Singapore were the initial impetus for hinterlandization of Batam. This was initiated by Goh Chok Tong, Singapore's first deputy prime minister, who promoted the concept of the Growth Triangle comprising Singapore, Johor in Malaysia and Riau in Indonesia. In 1989, Indonesia and Singapore signed an agreement to develop Batam Industrial Park (Batamindo), a duty-free export processing zone (EPZ). The growth triangle itself was to promote region-wide development based on regional complementarities. The agreement between Indonesia and Singapore has evolved over the past two decades, and

since 1999, Batam itself has been granted the status of an autonomous or self-governing city.

### Hinterlandization of Neighbouring Countries

Preparing Batam to bear the spillover of Singapore's success was envisioned by BJ Habibie, the third Indonesian President who was then the chief of Batam Industrial Development Authority (BIDA) in 1978. He proposed a theory called the Balloon Theory that stated that Singapore with her booming economy was a swollen balloon, which due to the shortage of land for manufacturing, would soon explode. If Singapore was considered as Balloon I, then Batam would be the Balloon II and other small surrounding islands would be Balloon III and IV. Unfortunately, in practice, the Balloon Theory neither developed nor articulated measures which would see economic success trickling down equally to Indonesian workers nor encouraging technology transfer.

In 1990, Singapore and Indonesia signed an agreement to cooperate in the development of the Riau province and the promotion and protection of investment between the two countries.(Wong and Ng 2009) The 1990 agreement also included provisions to simplify exit and entry procedures; to simplify the tax system to facilitate investment; to promote the tourism industry and jointly tourism promotion and development; and to cooperate in water supply, transportation and infrastructure development and maintenance.(Wong and Ng 2009)

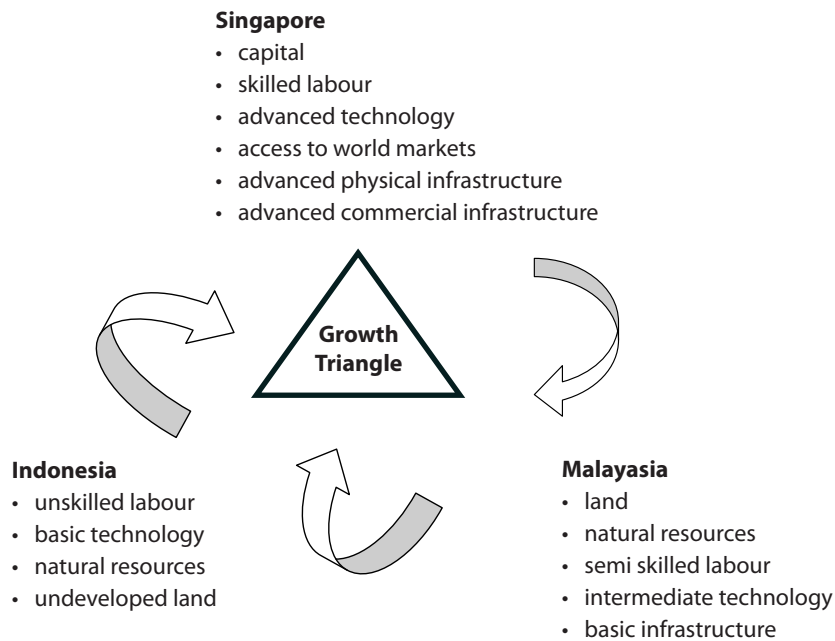
The political commitment to tie together Singapore with the Malaysian state of Johor and the Riau Islands (principally Batam and Bintan) of Indonesia in the triangular relationship was formally constituted in a memorandum of understanding between the three states signed in December 1994. The triangle was not sustained for long, as Malaysia tried to improve her electronics industry to compete with Singapore. Nevertheless, Malaysia has successfully remained an electronics manufacturing base, employing migrant workers from Indonesia and other developing countries. Meanwhile, Indonesia-Singapore cooperation continued to evolve. Still, the IMS-GT as a concept of regional development is worth revisiting to understand its part in the re-territorialization of the region for capital accumulation.

In addition to its role as a concept of regional development supported by international financial institutions such as the Asia Development Bank (ADB), Singapore viewed the IMS-GT as an opportunity to impose her economic power

over the region. This was the initial process of hinterlandization, zoning the neighborhood islands to relocate low-end production and reduce costs. Singapore with her capital supply could directly control this hinterlandization as well as secure access to land and water in Indonesia and Malaysia.

Figure 1

IMS-GT Triangle of Complementarity



Complementary redrawn after Debrah et al. (2000)

The initial idea launched by BIDA to rival Singapore by developing the port and infrastructure in Batam was then abandoned in 1990s. What continued to take place was the spatial fixing of Batam as Singapore’s backyard or manufacturing base. The ups and downs of Singapore’s national economy determined the sustainability of production in this offshore production base. Indeed, the concept of a triangle was a capital-centric initiative, as it allowed Singapore to tackle the issues of spatial limits and the high-cost of production and labour at the national level. Also important here was the ambitious strategy of EDB in encouraging the emergence of a regional division of labour with Singapore at the centre.

The peak of the triangle investment hype was in the early 1990s, when the Singaporean economy was booming with growth rates of 12.3 percent in 1993 and



11.4 percent in 1994, and low unemployment of between 1.7 per cent and 2.7 per cent. Skilled labour was in short supply and wages were rising (Cunningham and Debrah 1995; *Singapore Statistics 2003a*).<sup>9</sup> This was also underpinned by Singapore's highly developed financial sector, enabling the dispersal of the production process.

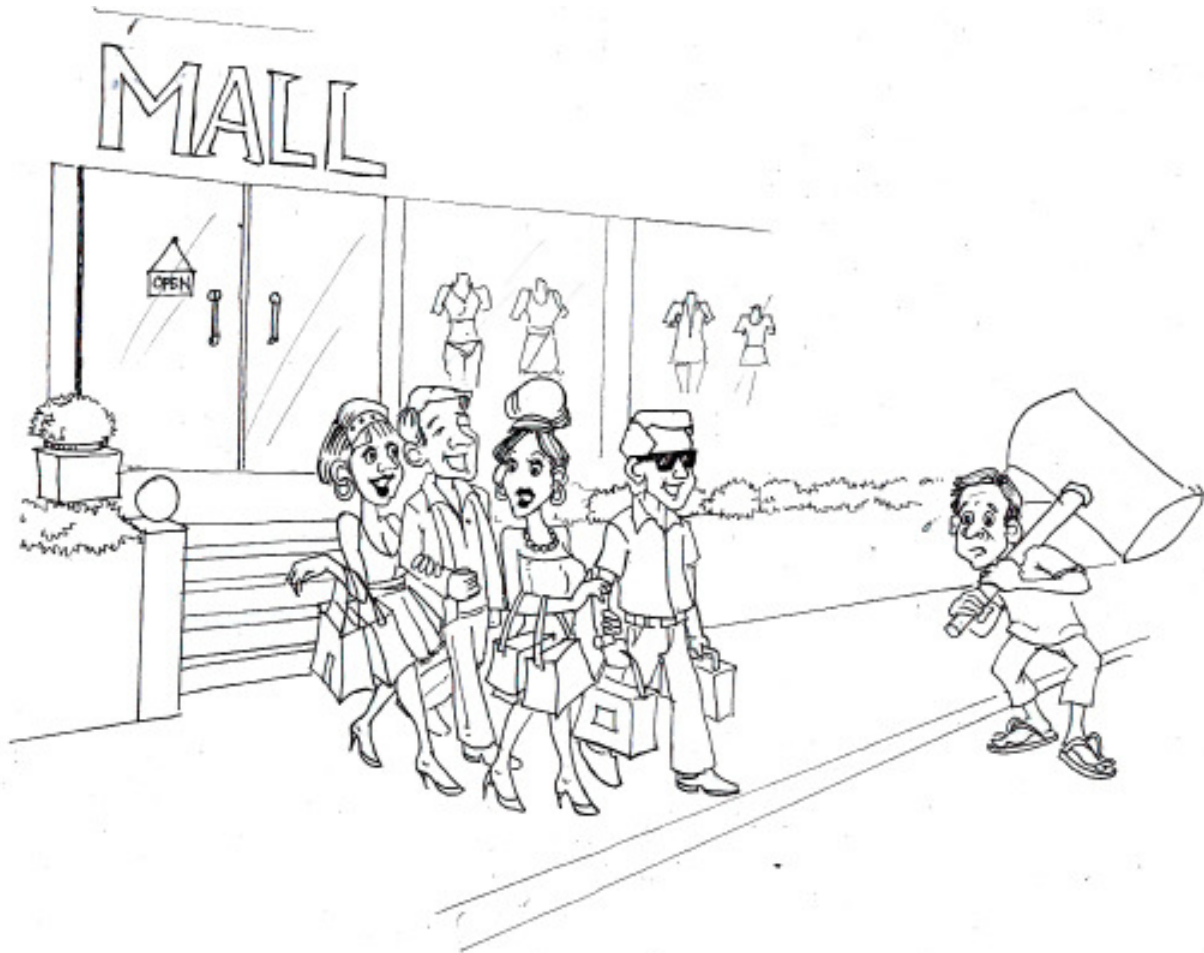
### Indonesia, the Backyard of Singapore's Electronics Industry

The aggressiveness of Singapore in opening new production space and acquiring a cheap supply of labour, land and water from neighbouring countries created a new territorial division of labour, and this capitalist activity has thereby produced uneven geographical development.<sup>10</sup> In understanding the regional role of Singapore, we refer to the concept of territorial logic of power. Singapore is an exemplary case of a political state which has actually set out to build an effective and dynamic regional economy within itself by systematically capturing the molecular processes of capital accumulation in space and time within its borders. (Harvey 2003 :106-107)

The substance of the regional development concept, which counts on the specialty of each nation involved or complementarities available, is the opening of new production space as the capital sending country seeks a cheap supply of labour and land. The institutional arrangement to accommodate the interests of Singapore then was made along with the establishment of infrastructure and land clearing. From the 1970s until 1995, Batam enjoyed certain additional fiscal incentives beyond its status at that time as a bonded zone. The law on the management of industrial estates by private companies was passed in 1989. Following this law, about 1,700 hectares of land was allocated for eight industrial estates in Batam Island. (Kee 2011) This pro-investment policy was welcomed by the then First Deputy Prime Minister of Singapore, Goh Chok Tong who had initiated the establishment of the IMS-GT. The year of 1989 marked with the liberalization of foreign investment regulations, initiating the take-off of foreign investment in Batam.

Looking back on this history, the first advantage that Indonesia offered to Singapore was a supply of cheap labour. In a September 1991 issue, *The Economist* commenting on the Batamindo Industrial Park established in the initial implementation of the growth triangle, mentioned that The Batam Industrial Corporation (Batamindo), 40 percent owned by Singaporean interests and 60 percent by the Salim Group,<sup>11</sup> transformed Batam into a floating factory. Further,





it said that Batamindo would supply custom-built factories on 30-year leases. The employment agencies tied to the Salim group supplied investors with unskilled but nimble-fingered workers (mostly young girls) at S\$92.50 (US\$54) a month.<sup>12</sup> The cheap labour, continues to be “an advantage” used to lure foreign investment to Batam. Despite the high cost of living in Batam, the highest in Indonesia, wages are kept low while the labour laws have been relaxed.

By the year 2000, Batam had become one of the world’s major electronics manufacturing centres with Singapore as the major investor. Just like stories common in other developing countries, upgrading the Batam FTZ into a SEZ was expected to increase the exports from Batam-Bintan-Karimun and to boost job creation. The government also expected future advantages -- that the growing workforce would become a base for businesses to access a population with increasing purchasing power.

## Indonesia-Singapore: The Long Road to a Framework Agreement

On September 15, 2009, Indonesian House of Representatives, after a three-year delay, finally approved the Law on Special Economic Zones (SEZs). The approval was the follow-up of the signing of the Indonesia-Singapore framework agreement in 2006 which sought economic cooperation to transform Batam-Bintan-Karimun (BBK) Islands into SEZs and draw additional investment from Singapore, in need of land and labour for manufacturing. The implementation of the framework agreement, however, was long delayed, awaiting the issuance of SEZ law. To accelerate the establishment of the SEZ, Indonesia Government enacted the Free Trade Zone (FTZ) Law in 2007 with the expectation that the establishment of BBK as an FTZ would be a model for future SEZ development.

Through the framework agreement, Indonesia expected that the upgrading of the status of BBK Islands to SEZ would create more employment opportunities. The Indonesia government was also convinced by the additional perks available from cooperation with Singapore. As part of the cooperation, Singapore and Indonesia would develop “cruise tourism” in Riau Island. Singapore also promised to buy more agricultural produce from Riau. Yet, after the official opening of the Free Trade Zone (FTZ) in 2009, Indonesia’s Trade and Finance Minister, Marie Elka Pangestu claimed that the plan to create around 130,000 jobs and attract US\$1 billion in investment had failed. The authorities blamed the lack of publicity, the global economic slowdown and the weak legal system, claiming foreign investors were not interested in setting up factories in Batam under these conditions.

The zone status of Batam has continued to evolve, along with the adjustments in fiscal policies, regulation and labour laws. At present, Batam still holds the status of free trade zone (FTZ) despite the fact that it has been questioned by many due to the 1998 Kyoto Convention<sup>13</sup>, which stated that this FTZ was an enclave entirely separated from a population dwelling area.

In understanding the evolution of the zone, we need to look at the framework of Indonesia’s political economy policies in preparing Batam as an enclave purely for capital investment, as well as the Asian Development Bank (ADB) and its role in pushing for regional development and the Free Trade Agreement (FTA) especially the US-Singapore FTA. Other issues to look at are what halted the technology transfers and backward and forward linkages of the zone.

As discussed earlier, the master plan to develop Batam as an industrial zone was developed in 1970s. The government set up BIDA (Batam Industrial

Development Authority) to accelerate the development of the zone by the presidential decree. Other important factors are the friction between Indonesia political elites and technocrats during Indonesia's authoritarian new order regime and the negotiation process between Indonesia and Singapore over capital movement and labour.

### Making Indonesia a Labour Intensive Manufacturing Base

The New Order regime was characterized by the competition between two distinct and competing groups of economics advisers: the technocrats and a diverse group of economic nationalists (Shannon Luke Smith, 1998). While the technocrats were fully committed to the free market ideology, the so-called economic nationalists having reservations about the free market policies, pursued state intervention in developing the national economic base. The proponents of the free market believed that the Indonesia economy in the post-oil-boom<sup>14</sup> era should be export-oriented, considering the abundance of cheap labour in Indonesia. Therefore, the emphasis of development was on labour-intensive and low-technological industry. But some economists, dubbed nationalist economists, believed that the emphasis should be more on capital intensive industries, which would enable Indonesia to develop her own high-tech industries and secure a fair share of national and foreign industrial ownership.

BIDA, an institution formed by the state to accelerate the development in Batam, was also the battlefield of these two competing groups of economic advisers. In the period following the boom in oil prices, Batam was managed by a New Order technocrat, JB Sumarlin who was also supported by other technocrats. The technocrats introduced a host of reforms for Batam Island with the overall aim of encouraging development by stimulating private sector involvement and aligning the zone's regulatory environment with that of Singapore. (Smith 1988) In line with this strategy, Indonesia created a conducive investment environment with low cost land and labour. Batam then was granted a status as a bonded zone.

BJ Habibie, falling into the category of economic nationalist and putting emphasis on strengthening the role of state in developing research and development (R&D) in high technology industries, took over the position of BIDA chief in 1978, inheriting the framework designed by the technocrats. He advocated that Indonesia rely more on the competitive advantages than the comparative ones. Thus, instead of developing Batam into a labour-intensive industrial zone, he set an ambitious goal of preparing the zone to become a capital-intensive industrial centre.

Under Habibie, the state monopolised economic policy and activities on Batam: It was the main investor and controlled the activities of the private sector tightly through restrictive economic policies and through restrictive nationalistic economic policies such as the DSP.<sup>15</sup>(Smith 1988) The Singaporean government considered this situation with disdain, because BIDA rejected many Singapore investment proposals to establish a low-technology production base in Batam. Due to this policy, in the decade of 1980s, Batam experienced investment malaise.

Indeed, the malaise then was overcome by the Singapore government aggressively lobbying the Indonesia government to be more foreign investment friendly. What happened afterward was the liberalization of foreign investment, facilitated and necessitated by the decline in the price of oil, Indonesia's primary export commodity. The growth triangle concept was launched, requiring Habibie to compromise his ambitions. The concept, which was more like informal regional cooperation, obviously foresaw Batam as a potential enclave perfectly supported by the reluctance of state (Singapore), (and Indonesia as the recipient of the state), to develop her capacity to enable technology transfer. Thus, Indonesia's comparative advantage would remain as backbone of this industrial policy.

### Figure 2

#### Comparative Advantages of Batam ( 1991), the Early Period of the Investment Boom

#### Relative Unit Cost Comparison for Land and Labour (1991) (Peachey, Perry and Warr 1997)

Cost of	Johor	Singapore	Batam
Land (US\$/Month)	4.08	4.25	2.03
Labour (US\$/Month)			
Unskilled	150	350	90
Semi Skilled	220	420	140
Skilled	400	600	200

Source: Ahmed, 1992

The liberalization of investment in Batam was also encouraged by a bold move by Indonesia government, allowing 100 percent foreign ownership in Batam. The policy was issued in 1989 after a bilateral meeting between then Indonesia President Soeharto and Singapore Prime Minister Lee Kwan Yew. Another point of agreement, intended to hamper technology transfer which was justified by intellectual property rights, was foreign-controlled production management.

The diplomatic relationship between Indonesia and Singapore has fluctuated greatly. During Soeharto's New Order regime, Singapore's then ambassador to Indonesia, Lee Khoo Choy called the relationship one of mutual symbiosis and cooperation. The New Order regime was an authoritarian regime, using development and stability as justification for the state's repressive and coercive action against the society. Stable economic performance would be a perfect strategy to disguise the authoritarian nature of the regime. Amidst the contempt from the international world for the human rights violations and militaristic approach in handling social tensions, Lee Kwan Yew provided the Indonesia government with political and economic support.

Within the historical context, the Indonesia-Malaysia confrontation in 1966 overshadowed Singapore, a little peninsula State, with a security threat from its nearest neighbours. Indonesia's foreign relations with Singapore during the New Order period not only improved but took on a more conciliatory and co-operative countenance, because there was a belief that relations with Singapore could be useful in serving the Soeharto's regime interests.(Lee 2001) Besides providing external support amidst domestic political challenges, Singapore was also ready to inject its capital to boost economic growth. It is also worth noting that the structural preparation of Batam involved all Soeharto's cronies. Meanwhile, Singapore, no doubt, benefited from the comparative advantages provided by Indonesia government.

This warm relationship then lasted until the 1997 Asian economic crisis which hit Indonesia severely and Soeharto was forced to step down and sign the Letter of Intent with IMF (International Monetary Fund). BJ Habibie, the successor to Soeharto, was never Lee Kwan Yew's favorite. This was probably related to Habibie's policy in Batam in 1980s. Lee Kwan Yew was also annoyed with Habibie's project of establishing an airplane industry in Indonesia. He argued that the project, actually intended to be a base of capital-intensive and high technology industry, was a money-wasting project. These sour relations did not recovered during the administration of President Abdurahman Wahid. Wahid sharply criticized Singapore by accusing the island state of pursuing foreign policy only for profit and for taking advantage of and manipulating Indonesia.( as described in Lee 2001)

Wahid's successor, Megawati, then tried to pursue a foreign policy intended to attract foreign investment. Importantly during this time, the U.S. and Singapore concluded their free trade agreement in 2003, and the Megawati administration in Indonesia, later asserted the role of Batam-Bintan-Karimun Islands as the manufacturing base for Singapore. In 2003, an additional 25 Singaporean companies set up factories on Batam, attracted by tariff advantages in the soon-to-be-launched Singapore-U.S. free trade agreement. The bilateral pact allowed for certain goods, manufactured or assembled in Batam, to qualify as of Singaporean origin and hence enjoy the preferential benefits accorded to a Singapore product in the US. (Guerin 2003)

It was Robert Zullik, a US Trade Representative, that convinced the Megawati administration that the Bintan industrial zone near Singapore would be the first to benefit from a free trade pact between US and the city state.<sup>16</sup> That FTA contained the "Integrated Source Initiative", a provision that applied to all items that already trade duty free between the two countries under the World Trade Organization's Information Technology Agreement. (Nanto 2003) The products that were covered under the agreement were treated as of Singapore origin when they were shipped through Singapore. That also applied to products or components manufactured in Batam and Bintan. Thus, when the US-Singapore FTA went into effect in January 2004, a borderless economy was realised. Singapore enterprises, expecting to attract more US foreign investment in the knowledge and capital-intensive industry, benefitted from cost competitive production in the Batam-Bintan-Karimun Islands.

During her administration in 2003, Megawati inaugurated six new industrial estates in Batam. She also reiterated that Batam tended to be more of free trade zone than a bonded zone. The Indonesia parliament approved the Batam Free Trade Zone and Free Port Law on September 14, 2004. There was prolonged political wrangling at the national level, triggered by the assumption that upgrading Batam's status would provoke an envious reaction from other provinces in Indonesia. This assumption should be viewed in the context of regional autonomy and political decentralization in Indonesia.

The policy might also have emanated from pressure from international lenders, such as the World Bank and the International Monetary Fund (IMF). Both were highly supportive of efforts to decentralise, believing it to be a central part of the democratisation process and useful in facilitating a Western-style capitalist economy. (Seymour and Turner 2002: 33-51) The competition among provinces to attract the foreign investment also influenced the development of industrial zones in Indonesia.

The upgrading of Batam status then was accelerated by the signing of the Indonesia-Singapore framework agreement in 2006. The agreement was signed by Megawati's successor, Susilo Bambang Yudhoyono (SBY) and Singapore Prime Minister Lee Hsien Loong. Before the Singapore prime minister, President Yudhoyono declared his commitment to the plan that the SEZ in Indonesia would comprise all three islands of Batam, Bintan and Karimun. In 2007, the president declared Batam an FTZ, ending all remaining unclear regulations on the status of Batam. It also served as preparation of Batam-Bintan-Karimun (BBK) to become the SEZ pilot project in Indonesia. The preparation toward the establishment of SEZs in Indonesia was also complimented by Spatial Planning Law passed in 2007, requiring the provincial administrations to submit their spatial plans, i.e., land use and urban planning, transport and environmental planning. This was along with the proposals submitted by the 11 provincial administrations to establish SEZs in their provinces.

Those 11 provincial administrations proposed the establishments of various SEZ including shipbuilding and natural-resource based industries. Besides the spatial planning requiring the province to provide at least 500 hectares of land for the SEZ, other investment impediments were to be immediately solved. It is inevitable that in future, the emergence of social conflicts, including forced eviction and intensified industrial disputes, would be seen. Already in East Java province, the establishment of the infrastructure for the zone had evicted hundreds of people.

Meanwhile, Riau Islands province had already contended with its BBK Islands projections for the electronics industry on Batam, footwear and textiles on Bintan and shipbuilding, metal and agro industries on Karimun. Before going deeper into the resistance movement which developed in Batam, the projected hub for electronics manufacturing, we need to describe the general situation of the electronics industry in Indonesia.

## Indonesia, Attracting World's Electronics Investment with Low Wages

The first semiconductor firm to operate in Indonesia was Ness Industries, a small firm from Silicon Valley in California, that started assembling light emitting diodes (LEDs) in 1972.(Gassert 1985) Monsanto took over the operation in 1974, but the firm has since closed shop. Then, National Semiconductor set up its Indonesian integrated circuit (IC) assembly plant in Bandung in 1974. Later, the company was sold to an Indonesia-Singapore joint venture, Omedata. When National Semiconductor and Fairchild began IC assembly in Indonesia in 1974 and 1975 respectively, it appeared that Indonesia might be the next Malaysia.(Gassert 1985)

In those years, Malaysia had grown as electronics manufacturing base and electronics accounted for 57 percent of national revenue. Compared to Malaysia and Singapore, Indonesia was left behind in boosting a domestic electronics industry. Yet, in the decade of 1990s, many analysts predicted that Indonesia would outpace Malaysia and Singapore in this industry, especially considering the potential of the domestic market to absorb electronics products, such as home appliances. The development of the domestic electronics industry was one of the top priorities of the Indonesia Industry Roadmap 2010.(Oxford Business Group 2008)

Nevertheless, as of 2011 and compared to Singapore and Malaysia, the electronics industry in Indonesia is still considered to be in its infancy. This has been due to slow technological advances, the widespread sale of counterfeit products and the lack of infrastructure support. Nevertheless, the low cost of labour is still Indonesia's main comparative advantage. This is reflected in the optimistic view of the government that more electronics companies will relocate their manufacturing to Indonesia, due to the rising labour costs in China and Vietnam.

The Industry Ministry estimated the value of the country's electronics production would increase by 10 percent to Rp 94.3 trillion (US\$10.5 billion) in 2010 from Rp 85.7 trillion in 2009.<sup>17</sup> As of early 2010, there were 235 electronic companies operating in Indonesia.<sup>18</sup> In 2009, the investment in the electronics sector reached only Rp 12 trillion, a drop from the Rp. 17 trillion a year earlier which was blamed on the financial global downturn.<sup>19</sup>



**Figure 3****Foreign Investment in Indonesia (as at end-Q2 2010)**

Country	Investment	Projects
Singapore	US\$1.6 Billion	156 projects
Hong Kong	US\$0.8 Billion	27 projects
USA	US\$0.3 Billion	33 projects
Japan	US\$0.2 Billion	98 projects
Netherlands	US\$0.2 Billion	43 projects
Other countries	US\$0.8 Billion	792 projects
All countries	US\$ 3.8 Billion	

In 2010, several electronics companies, Panasonic, Sanyo, Epson, Sharp and LG, made Indonesia their global production base for their several products. Panasonic, for example, decided to make Indonesia as its lithium battery production base, and relocated its lithium coin battery production from Japan to Indonesia.

In February, 2010, Japanese consumer electronics giant Toshiba chose Indonesia as its regional production centre for liquid crystal display (LCD) television sets and has relocated its Vietnamese factory to Indonesia.<sup>20</sup> Toshiba's total investment in Indonesia was \$157 million.<sup>21</sup> Low cost manufacturing and the availability of natural resources have made Indonesia appealing for Japan's capital.

But it has not all been roses. In April 2009, workers at PT Toshiba Consumer Product Indonesia (CPI), in Cikarang, West Java launched a peaceful strike demanding the company recognize the collective bargaining agreement (CBA). The company harshly responded to the strike by canceling the employees' health insurance scheme. During a four-month strike that followed that response, negotiations, deadlock in which workers were represented by FSPMI (Indonesia Metal Workers Federation), were deadlocked.

The strike then lasted for four months with the company refusing to pay the wages of around 700 striking workers. The company also instigated violent action by inviting the police and 30 thugs to intimidate workers. After a series of negotiations, the company reinstated all the striking workers but dismissed all the union leaders.

Other strikes, demanding wage increases and collective bargaining, have taken place in many electronics industry firms in Indonesia. In 2006, prior to the

Toshiba action, a thousand workers at PT Sanyo Jaya Components Indonesia (SJCI) launched a strike against the company's efficiency policy. In 2008, around one thousand workers at Indonesia-Singapore joint venture semiconductor company, Omedata in Bandung, launched a strike demanding a wage increase.

A valuable lesson should have been learned by Indonesia in 2003, when PT Sony Electronics (SEI) Indonesia decided to close the factory and relocated it to Malaysia. At that time, Sony argued that the low cost of labour was not compatible with the components that were imported from Japan. Importing the original components from Japan, SEI only allocated 1.5 percent of the total production cost for workers' wages, the lowest percentage compared to other countries where Sony allocated an average 8.5 percent for wages. This is an a good example of the harsh situation faced by local workers – wherein workers bear the double burden of a company pursuing low-cost production and the reluctance of the state to facilitate the development of knowledge-intensive industries.

Despite the government's boast that from 2010 onward, many renowned electronics companies would relocate their production bases to Indonesia, the electronics industry remains a low technology and labour-intensive industry. The government promised investors it would relax the labour law and streamline the investment procedure, while aiming to create more industrial enclaves as one solution to tackle unemployment issues. All in all, these measures have not attracted high tech companies and foreign-owned electronics companies continue to see Indonesia only as a country with vast reserves of cheap labour and a potential market for their electronics products.

At the same time, many business people predicted that the electronics industry would stagnate if the government could not handle the issue of labour militancy in Indonesia. Therefore, the intense repression of workers' rights and the flexibilization of the workforce remains the predominant strategies of the state and investors.

The electronics industry within an industrial enclave such as Batam FTZ has created multi faceted issues, requiring workers to develop various organizing initiatives. These organizing strategies have not been confined to resolving industrial disputes at the workplace, since industrial hazards have also impacted the community. The political dynamics at the local level, which is more like a battle of elites for the wealth, encourages workers' organizations to organize political training and action. The point of these strategies is to politically empower workers and the community within the enclave.

Along with its research projects, AMRC has also organized two workshops on occupational safety and health issues in the electronics industry, denouncing the myth that the electronics industry is a clean industry. Setting up OSH committee at the city level turned out to be an effective organizing tool, as it has also projected in future to reach out to the informal sector in the enclave that recycles electronic waste. Capital mobility indeed has created an uneven geographical development and its penetration into a society (e.g., pushing up land prices, dumping of hazardous waste, etc) can severely harm the lives of people in that society, often putting them in precarious situations.

### Workers Organizing Inside Batam FTZ

As mentioned earlier, declaring the area a free trade zone involved political negotiations at regional and local level. In these negotiations over the investment, a commitment to provide infrastructure support, incentives and relaxation of certain labour laws is made. The business people highlight several impediments in doing business in Indonesia. Those are bureaucratic procedures, rampant corruption, lack of infrastructure and labour militancy. After the signing of the framework agreement with Singapore in 2006, as part of the commitment to accelerate the establishment of SEZs in Indonesia, the government promised investors that I would relax the labour law and make it easier to do business in zones.

An interesting strategy discussed is an initiative to influence and change public policies at the provincial level. This included setting up alliances among unions in the zone. FSPMI-Batam-Bintan represented around 19,800 workers, of which 14,000 were from electronics sector. At 26 electronics firms in the zone, there were plant-level unions affiliated to the federation.<sup>22</sup> Among these 26 electronics unions, eight of them had collective bargaining agreements (CBAs) which were achieved through negotiations between the union and management. Those were with eight companies: Panasonic, Japan Servo, Infineon, Blactronic, Unicem, TEAC, Sumitomo, Casio and Flextronics. Nevertheless, within the last decade, the federation has been dealing with the issue of the declining membership stemming from the implementation of the contract system. FSPMI Batam claimed that in 2010 almost 80 percent of workers in the electronics manufacturing line were contract workers.

**Figure 4****26 Electronics companies where the plant level unions are FSPMI members**

Company Name	Supplying to/Investor/type of company	Product
Tectron	Contract Manufacture (CM), supplying to European and US toy manufacturers	Chip on board (COB) and printed circuit boards (PCBs)
Nissin Kogyo	Overseas Subsidiary, supplying to: Panasonic Semiconductor Discrete Devices Co.,Ltd. <ul style="list-style-type: none"> <li>• PT.Panasonic Shikoku Electronics Batam</li> <li>• PT.Panasonic Gobel Energy Indonesia (PECGI)</li> <li>• PT.SANYO Energy Batam</li> <li>• Takata CPI Singapore Pte Ltd</li> </ul>	Stamping parts for cars <ul style="list-style-type: none"> <li>• Stamping parts for the HDD</li> <li>• Stamping parts for electron beam guns</li> <li>• Stamping parts for batteries</li> <li>• Magnetron core tube assembly (stamping, plating, assembly, heat treatment electro nickel plating)</li> </ul>
PT Japan Servo	The main shareholder is subsidiary of Japan Servo, Japan Servo Pte Ltd Singapore  In 2009, it closed down three of its seven plants in Batam, slashing 700 jobs due to the global economic downturn	Stepping motors and ice makers, DC and AC fans
Sanwa	Manufacturing industrial supply. Singapore ownership-part of Sanwa-Intec Group	One-stop manufacturing facilities of injection molding, mold maintenance that includes mold design and fabrication, servicing assembling of thermoplastic injection molded products and secondary process for high-tech production of insert/ outsert molding for automotive, communication, CD-Rom, and disk drive industries.

Flextronic	Singapore Electronic Manufacturing Service (EMS)	Offering customized electronics manufacturing solutions from high volume low mix, or high mix low volume Printed Circuit Board Assembly (PCBA) manufacturing, testing and NPI services, including the level 5 build to system integration and reverse logistics and repair
Sumitomo		Wire harness for automobiles
Beyonic	Singapore EMS	EMS, Metal stamping, injection moulding
PED (Panasonic Device)	Equipment manufacturer (coil manufacture)-Assembly	Transformers, speakers, remote control units, low resistance value chip resistors, metal(oxide) film resistors magneto resistive elements, ZNR transient/surge absorbers SP-cap/polymer aluminum capacitors
TEAC	Original equipment manufacture (OEM), manufacturing for Japan's TEAC Corp and Singapore; acts as a logistics centre for product export.	Assembling CD and DVD optical drives to be exported to China, U.S., Taiwan and Japan (Dell, Hewlett Packard, Toshiba etc)
Unisem	Malaysia-headquartered company with OEM and EMS	Semi-conductor assembling and testing service for wafer probing, bumping and grinding
Infineon	Germany-headquartered automotive chip supplier with research and development facility in Singapore and fabrication unit in Batam.	Power ICs and automotive ICs (assembling)
SIIX Electronic Indonesia	Japan-headquartered; electronic assembly	PCB and scanner assembling

Varta Microbatery	Singapore-headquartered company with OEM in Batam	Rechargeable nickel-metal hydride button cells/batteries (high performance, high temperature and high rate series); primary lithium coin and lithium round batteries; rechargeable lithium-ion batteries; primary and rechargeable lithium polymer batteries.
Sanmina SCI	EMS provided by Sanmina SCI; Singapore contract manufacturer (CM)	PCB fabrication and assembly

### Right to Unionize in Batam FTZ

The impact of the political reform in 1998, stimulating the burgeoning of mass organizations including unions in Indonesia, also reached Batam. The FSPMI started organizing workers in Batam in 2001. In the initial stage, the aim was to convert the management-sponsored bipartite groups into independent unions. Workers had already expressed their resentment of these management-sponsored bipartite organizations which they felt were set up to compromise all grievances.

Prior to 2001, the management of some companies applied the bipartite mechanism by setting up a plant-level institution, called a Lembaga Kerjasama-Bipartite Institution (LKS). This institution served as a substitute for a plant-level union. The LKS, as a management-sponsored bipartite, then was expected to preempt and solve any industrial conflicts at the plant-level.

One of the initial organizing strategies was to turn the LKS into an independent union. This was due to the growing discontent among LKS leaders, who were aware that the institution was manipulated by the management. Nurhamli of FSPMI Legal Division, was a chairperson of the LKS at Japan Servo Company. He admitted that he felt frustrated as the mandate of the LKS was confined to the role of issuing recommendations.<sup>23</sup>

Furthermore, Nurhamli admitted that it required endurance and patience to turn a LKS into a union. It was not only a matter of introducing the structure and mechanism but also pushing the management to recognize the union. It took almost one year to convince workers to transform their LKS into unions. By the end

of 2002, unions were established at Panasonic Battery, Varta, Infineon and Kyocera. The strategy of penetrating a LKS and changed it into a union was also applied at the Sumitomo plant. SPMI Sumitomo was founded in 2005. Union activists then forced the management to recognize the union and negotiate with them over the collective bargaining agreement (CBA). In the beginning, the companies resisted all efforts toward unionization and many workers were intimidated and interrogated by the security.

In general, FSPMI-Batam applied two types of organizing strategies to recruit more members. Those were organizing inside the plant approached the head of the production line, who later would introduce the union and its activities to other workers. The traditional strategy of organizing workers in their housing area was also applied, since workers were often reluctant to have these discussions at the workplace.

Based on various discussions and interviews, the major issue within the zone at the time of writing is declining union membership due to factory closures, the rising use of the contract system and union busting. Factory closures in Batam from 2005 to early 2010 have slashed almost 6,000 jobs.

### Declining Union Membership

The major impediments of the union are the declining membership due to the flexibilization of the labour market and factory closures. In 2011 in Batam, there were 56 manpower agencies, which actively recruit workers from other provinces. These agencies also diversified their business by supplying manpower to the companies located in neighbouring Malaysia.

Around 79 percent of the workforce in Riau Islands are contract workers or those employed to do outsourced work.. Workers, recruited through these agencies, are obliged to pay registration and placement fees. The rate of registration fee ranges from Rp10,000 (US\$1.07 USD) to Rp1,500,000 (US\$160), while the placement fee ranges from Rp150,000 (US\$16) to Rp1,800,000 (US\$192.50).<sup>24</sup> It is common practice for the agency to set up an agreement with the company to deduct these fees from the wages of a worker, so that the workers can pay the placement fee in installments. This debt burden, the absence of job security and a manipulative industrial strategy to keep workers docile, have been the main reasons discouraging workers from joining unions. Workers are also suspicious that some agents also steal workers' allowances.

**Figure V****Factory Closures in Batam, 2005-2011<sup>25</sup>**

Name of the company	Year of the closure	Number of dismissed workers
Kyocera	2005	500
Panasonic Battery	2007	1,300
Flexus	2007	400
Flyris	2007	300
Technicas	2008	150
Casio	2008	1,600
SFC-Ship Dock	2008	300
Uniment	2008	120
Panasonic Shikoku	April,2011	Estimated 1,200

**Alliance Against Outsourcing and Low Wages**

Workers inside the zone also set up an alliance of the three major unions active in the Batam zone.<sup>26</sup> And in the last six years, this alliance has been active in taking up common issues such as minimum wage and outsourcing. Batam, as an industrial enclave, has a distinct characteristic compared to other industrial zones. Geographically, it is isolated from other islands. Experimenting with different strategies within the formal political sphere also takes place. (This will be elaborated on later to show how the group exercising the strategy reflects their political experiences.)

Last year, the dispute between workers' alliance and the employers' association over the minimum wages policy ended up in the State Administrative Court (PTUN). The workers raised their objection to the wage proposed by the employers at the end of 2009. The employers proposed raising the wages to Rp 842,000 (about US\$85) a month. Meanwhile, according to a workers' survey on living wages, the minimum wage in Batam should have been increased to Rp 1,200,000 (US\$119) a month.

**Organizing Women Workers**

It has been highlighted in many research reports that women workers comprised 70-90 percent of the workforce in free trade zones in Southeast Asia.



In Indonesia, from the very beginning, the establishment of the zone has heavily relied on women workers, chosen deliberately because they are considered a docile and cheap workforce. On average, women workers make up 70 percent of the workforce in an electronics factory in Batam.

Women constitute a significant proportion of the membership of FSPMI. In Batam, 80 percent of FSPMI members are women and FSPMI established its Women's Directorate in 2004. This was also because of the external role of the International Metal Federation (IMF) which pushed for a leadership role for women in the unions. The Women's Directorate was responsible for the implementation of IMF education program, which involved a series of three-day programs, on gender issues, organizing, basic education, leadership and collective bargaining. (Ford 2008)

During an interview with a woman worker from Unisem, a semiconductor factory, she mentioned that discrimination against women workers is still rampant. In terms of job promotion, male workers always have priority. Another discriminative policy is 'the allowance' as women workers are only entitled to half amount received by male workers. The research finding also shows that women workers, especially the married ones, are reluctant to be active in the union. This is because of their demanding work schedule and household tasks such as child rearing and other household duties. This requires multi-layered organizing strategy and special attention must be given to women through education and regular discussion intended to dismantle the socio-cultural barriers preventing women from being active in the union. A women's forum is necessary to encourage women workers to be more active in the union.

To deal with women's issues, women workers in Batam did set up a forum, Women Communication Forum. The forum regularly organizes discussions on women's reproductive rights, workers' rights and unions. The forum also stimulates discussion through a series of thematic programs. Regarding organizing within the zone, the main challenge still lies in encouraging the leaders of women workers. Three-day training programs targeting women workers are still regularly organized. Meanwhile, the forum effectively compliments the training programs. The forum also develops a program of regular plant-level discussions in which women workers can share their views on working conditions and other women's issues.

Yet, more effort is required in terms of improving the leadership capability of women within male-dominated unions. One key reason for this is the need for

women to take a greater role in occupational health and safety (OSH) issues, which directly affect their working lives.

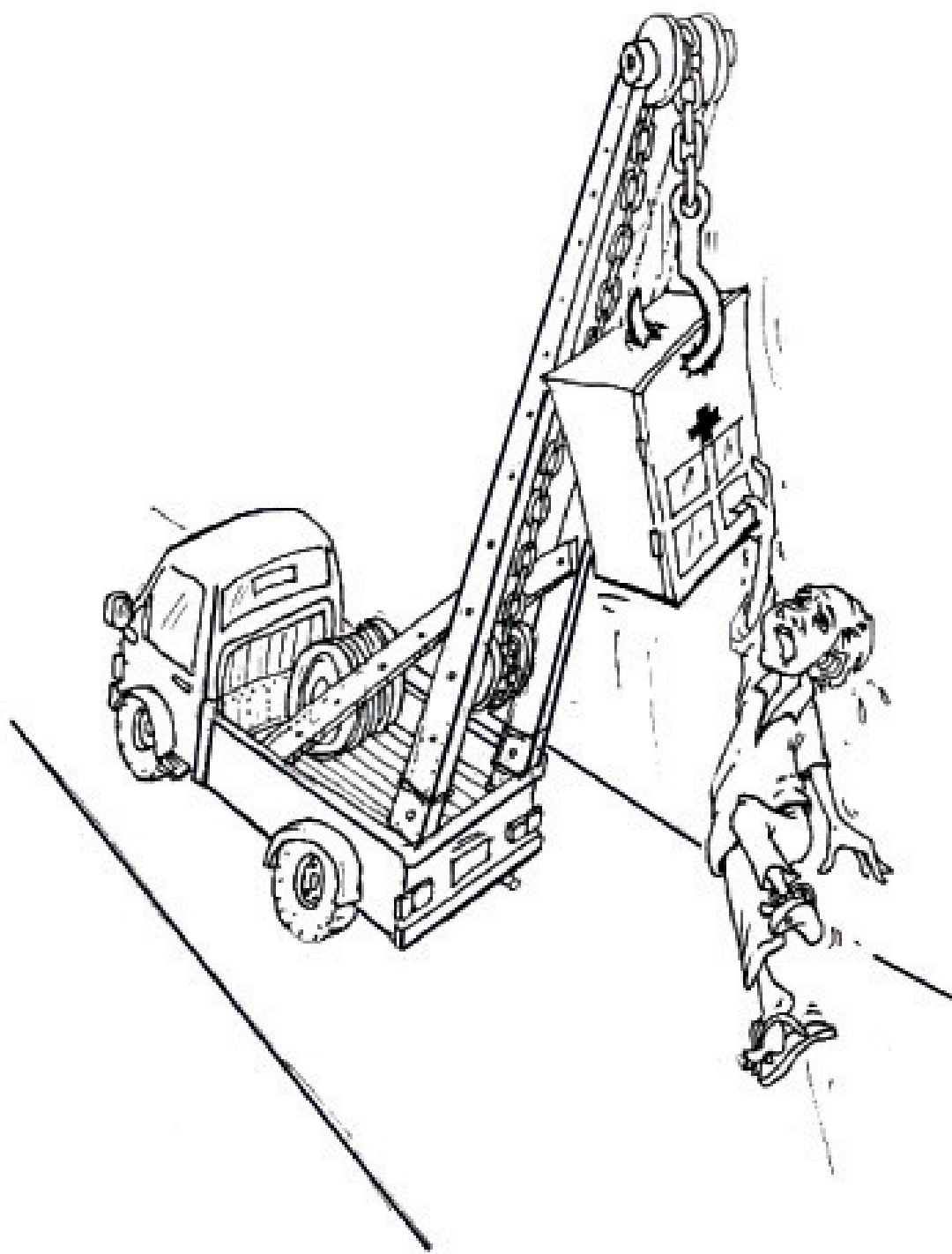
### Occupational Health and Safety

When asked about occupational hazards, most electronics workers in the zone mentioned some symptoms caused by exposure to chemicals during the production process. Nevertheless, they are not really well informed on the impact of these chemicals on their health. Cases of breast, blood and brain cancer, have all been recorded and may be the result of exposure to chemicals. The massive usage of solvent during the production process has also been a major concern among workers.

Examples of OSH issues in Batam plants, including the reproductive rights of women workers:

1. At electronics companies such as Flextronics and Unicem, women workers must have a medical examination and show medical proof to claim their right to take leave due to menstruation.. Many women workers feel that this procedure is invasive. Thus, they often are reluctant to claim this right
2. There are already possible cases of occupational disease such as breast cancer
3. Occupational hazards including working with lithium used in micro batteries and periodic leakages of the chemical in the factory. This has been a long time concern of workers. A possible case of occupational cancer has also been found at micro battery factory.
4. The usage of chemicals such as solvent, acetone and ethanol which when inhaled over a period of hours can cause acute respiratory problems and headaches.
5. Most workers need to work overtime to earn additional income. For contract workers whose average basic wages are less than US\$100 a month, overtime is an opportunity to earn sufficient income. This demanding working schedule creates tension and stress-related illnesses.
6. Another possible case of occupational disease is organ failure such as kidney failure.

The workers are also aware of the importance of collective bargaining as a means of protecting themselves against OSH hazards and dangers. During the discussion, a worker mentioned that most electronics factories require the formation of an OSH committee in the workplace. This in-house committee, in practice, is intended only to monitor whether workers comply with OSH standards



We, in the zone (2)

laid out by the management. Nevertheless, to counter claims by management who blame workers for every occupational accident, union activists have called on workers to use the OSH committee as a bargaining chamber.

Another challenge ahead is to identify the chemicals used in the production process and analyze their impact on workers. So far the strategy has been restricted at the workplace but FSPMI is in the process of developing the Batam OSH committee. The unions, after a series of workshops, have decided to develop methods to identify the hazardous chemicals. On the bigger scale, FSPMI Batam is planning to set up an OSH committee at the municipal level to monitor potential industrial hazards.

## Zone's Impact on Society, Environment

### Migration influx

The most noticeable social impact of the zone is the influx of migrants from other islands and provinces. From 2000 to 2010, the population in Batam has doubled from around 550,000 to 1,050,000.

Besides working in factories, many come to Batam to scrap a living in the service sector. Poor public transportation has encouraged the emergence of an "unregistered" taxi business. The drivers usually come from other provinces on the island of Sumatra. Batam is also notorious as a major transit for the trafficking of women to neighboring countries and the Middle East. Currently, there are at least 41 illegal harbors<sup>27</sup> used for smuggling trafficked women. Since early 2000, the number of trafficking cases in Batam has reached an alarming level: Every week, around 300 women and children are "sold" overseas and inside Batam. The local government, struggling to fight this practice, issued a law in 2002 requiring migrant workers to show a guarantee letter from their employer. The law, however, has proven to be useless, and in practice only addressed the tip of the iceberg. Behind this rampant trafficking, there is an organized network of crime which is "untouchable" by law.

Besides becoming a major transit centre for trafficking, manpower agencies have become a new business in Batam. The agencies in Batam supply manpower for electronics manufacturers in Malaysia. For a one or two-year contract, the agencies charge a placement fee of between US\$100 to 200 per worker. The placement contract signed by the workers and agencies, in practice, has been an effective means of controlling workers on the production line. Any misbehavior

by a worker and he or she is sent back to the agency to be deported back to his or her hometown. Joining a union or trying to organize workers falls into the “misbehavior” category.

#### Illegal “Wild Housing”

The most noticeable change in Batam is the development of illegal housing, famously known as “wild housing”. Constructed overnight on a piece of land, these makeshift shanties shelter thousands of informal workers and job seekers. Thus, despite economic growth and the great capital influx to Batam, only 30 percent of the population has been absorbed by the formal labour market and can afford reasonable accommodation. The rest live in these makeshift squats. Factory workers in Batam spend 30 percent of their wages on housing. The average income of a factory workers in Batam is Rp1,100,000 (US\$117) per month, while rent payment could range from Rp300,000-400,000(US\$32-42) a month. Usually, to make it affordable, four or five workers will share a place, cramming themselves into a small studio unit.

For the most part, illegal dwellings are the only housing affordable by informal workers who earn around US\$1-2 a day. Factory workers whose contracts have expired are another group seeking the cheapest accommodation and while seeking new jobs also build their own makeshift shanties. Due to the unclear ownership of the land, the state electricity and water companies will not allow these thousands of occupants of illegal dwelling to access their services. The occupants then rely on electricity supply from illegal providers who supply them with electricity from a generator. They also must buy clean water from water vendors.

The government has attempted several times to demolish these communities, but the demolition exercise always ends up in a violent clash with the residents of the community. The occupants have staged several protests demanding their rights to access electricity, water and land. Most of the occupants are Batam ID holders, making them the target of politicians during election campaigns. In a protest in October 2010, aware of their political rights as lawful citizens, the occupants of illegal dwellings threatened to boycott the provincial election. It is estimated that the number of illegal dwellings in Batam has reached more than 50,000 units occupied by around 200,000 people, equal two percent of the total population.

To tackle this housing issue, the local administration has supported the Labour Earmark program, launched by the state-owned insurance company, PT

Batam 2000



VS

Batam 2010



Jamsostek which has constructed low cost flats for workers. Jamsostek's Director of Human Resources and General Affairs Djoko Sungkono said the construction of these low cost apartments was part of the company's Labor Earmark Program, the resources for which have come from the company's annual profits from running social security programs.<sup>28</sup> Considered a healthy state-owned enterprise (SOE), PT Jamsostek through its Labour Earmark program also provides home mortgages for workers.

Jamsostek has invested Rp 87 trillion from its total assets worth Rp 91.8 trillion to buy bonds from state-owned banks and to make other interventions in the capital markets.<sup>29</sup> Despite this programme, the number of illegal housing units continues to outnumber the half- empty housing constructed by private developers. The involvement of PT Jamsostek in investing its capital in property development, albeit supported by incentives of cheap land leases from the local administration, is ironic in that it has been well known for its poor record in providing compensation for occupational accidents and illnesses.

### Industrial Waste and Environmental Issues

Batam is also a favorite destination for the illegal importing of hazardous industrial waste and chemicals, which are used in place of higher priced and safe materials. In 2009, the Ministry of the Environment investigated the involvement of state officials in smuggling copper slag to Batam.<sup>30</sup> The copper slag was to be used as a substitute for ferro sand. Another well publicized case of toxic waste imports took place in 2005, when Singapore was found to have imported one million tons of waste material containing hazardous heavy metals to Batam. In addition to toxic waste dumped by neighboring countries, it is estimated that hundreds of factories in Batam do not have waste treatment facilities.

During one interview, a worker mentioned that many factories in the Panbil industrial zone in Batam dumped their liquid waste containing various metals without any proper treatment. In Batuaji, one of the industrial zones in Batam, factories dump their waste in the housing area. The occupants of many housing areas in Batam often suffer from skin rashes after using contaminated water. Some workers earn additional income by collecting industrial scrap, such as printed circuit boards (PCBs). Due to a lack of knowledge of the toxic content of this scrap, workers' families are also exposed to this industrial hazard.



## Strategies for Change: Experimenting in the Formal Political Sphere

During the field research interviews, FSPMI Batam admitted the need to target policy changes. In doing so, the federation experimented with some strategies in the formal political sphere. They initiated the experiment by declaring a network, the Network of Metal Workers' Candidates (Jaringan Simpul Pekerja Metal, JAS Metal), in 2009 which aimed to see a workers' representative elected to the legislature. The formation of JAS Metal should be understood as a reaching out strategy, as membership was open, that is, not restricted to just the federation members. As a political strategy, JAS Metal was formed as a political vehicle, while the federation maintains its principle task of organizing and advocating for workers.

With the slogan of 'expressing the political rights of workers', JAS Metal, using some political parties as vehicles, nominated its members as candidates in the legislative election. However, none of its candidates secured enough votes to get a seat in 2009. Drawing a lesson from this process, JAS Metal brought all its members together and tried to improve its strategy and called it 'JAS Metal Part 2'. Political education for workers and the socialization of political agendas are two important elements to improve the strategy. The group is committed to consistently improving its strategies and to taking part in any electoral process at local and national levels.

When it comes to political strategy, the major challenge ahead for a group such as JAS Metal is to push for the inclusion not only of factory workers but also informal sector workers in the policy-making process. During field research interviews, JAS Metal activists said they have been aware of the social impact of the zone, especially its impact on informal workers. They also agreed to include issues of public facilities, such as the access to land, water and formal education their platform.

Despite some flaws, this experiment has been an innovative strategy considering the objective condition in Indonesia where most of unions seem reluctant to "play" within formal political arena, and taking into account that during 32 years of authoritarian New Order regime, the state systematically curtailed the rights of workers to freedom of association and decapitated any attempts by workers to develop their own political voice and power base. Twelve years after the political reforms of 1998, there has been a period of consolidation of labour's power, and during this period, despite fragmentation and conflicts,



groups continue to seek to identify the best way for workers to exercise their political rights.

The question posed here is whether the initiative taken within the formal political sphere guarantees the representation of the oppressed. Yet, this can be a breakthrough, where the union movement, which used to be a defensive organization protecting workers' rights, is capable of being inclusive and reaching out to the community.

### Exploring Organizing Strategies

On June 10, 2009, Indonesia government officially opened Suramadu Bridge in East Java Province. This 5,438-meter bridge, the longest in the country, connecting Surabaya city to Madura Island is part of the government's plan to establish a special economic zone (SEZ) in the province. The project was funded by an investment of US\$ 400 million from China and US\$ 147,3 million from the national government.

The government plans to develop a 1,800-hectare area around the Suramadu Bridge into an economic development area, 600 hectares of which will be set aside as a special economic zone (SEZ).<sup>31</sup>

To attract more foreign investment to the area, the government plans to evict around 400 street vendors along the area near the bridge. Land clearing for the zone also threatens to destroy the homes and livelihood of thousands of people. The major problem in establishing an SEZs in a densely populated island like Java Island is the dispossession of people from their land. The government, driven by the interests of investors, will soon issue a bill on land procurement for public facilities. This is to finalize the draft of the Land Acquisition Bill which legitimizes land acquisition for development of infrastructure. The law will also compliment the Spatial Planning Law passed in 2007, requiring the provincial administrations to submit a complete set of development plans to establish an SEZs. In practice, the bill may serve the interests of the private sector and give the state the authority to grab the land in the name of public interest, that is, the development of property and infrastructure.

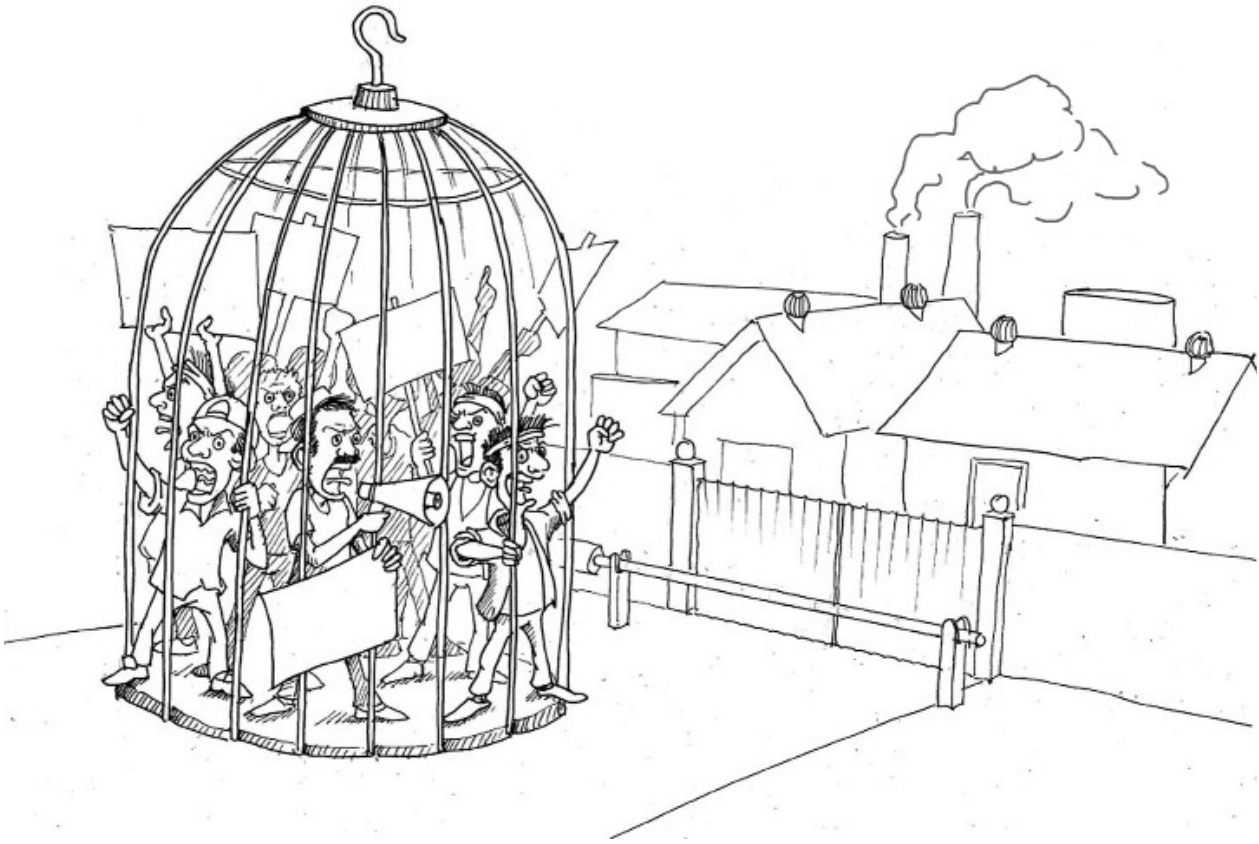
Combined with the ambitious plan to establish SEZs and economic corridors, government also promotes the concept of agriculture-based SEZs, seeking to take full advantage of the country's rich natural resources. The projected plans are for palm oil plantations in North Sumatra and Riau provinces. This is to stimulate

downstream industries which will use raw materials produced in agriculture-based SEZ. Research from the Agriculture Ministry shows Indonesia has 190 million hectares of land, 101 million suitable for agricultural use. As of 2010, only 64 million hectares were under cultivation. .<sup>32</sup> Again, social conflicts emerging from land acquisition will arise from this plan. Since 2006, there have been 625 land disputes between peasants and the private sector or state-owned plantations, due to the expansion of the palm oil industry in Indonesia. The number excludes the protracted land disputes which were started in 1990s when rubber plantations were converted to palm oil. Meanwhile, the economic corridors planned for the eastern part of Indonesia are to support the mining industry.

Setting a goal of contributing to regional development propelled by domestic resources, Indonesia government has set up a scheme of “economic corridors” to be established in the major islands. The corridors were defined as six economic development highways, mostly located along coastlines, which would connect economic growth centers on five islands, Java, Sumatra, Kalimantan, Sulawesi and Papua.<sup>33</sup> The scheme of the economic corridors is ostensibly to realize the integral plan of establishing SEZs in Indonesia.

In 2008, prior to the approval of the SEZ Law by the House of Representatives, 18 regions in Indonesia submitted 22 proposals to the Minister of Trade and Industry to establish SEZs in their regions. Citing Batam as the pilot project of the Indonesian SEZ development and lured by the success of China’s economic growth, the SEZ development program is seen as a panacea for accelerating economic growth and creating employment.

For business people, rampant corruption and the militancy of labour in Indonesia are two major concerns in establishing SEZs in Indonesia. Potential investors have demanded the government create a more business-friendly environment to attract foreign investment. Responding to this demand and at the same time trying to preserving the good image of the regime and its political party, the government has promised to set up a tripartite council of government, business and workers’ representatives inside each zone. However, in practice, this is likely to mean greater flexibilization of the workforce which will be the best means of dismantling the union’s power, something that workers in Batam have long decried. Another major issue is whether independent unions, not affiliated to any confederations recognized by the state, will be entitled to represent workers on the so-called tripartite council. Indeed, the establishment of the zone might absorb more of the workforce into the formal economy, yet the nature of the work will be more informalized. This constitutes new challenges for workers organizing.



### Building Political Bargaining Power

In addition to the rapid informalization of the formal economy, dispossession of land for infrastructure projects and the establishment of the zones has pushed thousands of landless peasants into the informal economy. The impact of the SEZ development program will be multidimensional. Not only will it severely impact informalized workers but also people who have been disposed of their land and thus of their livelihood. Referring to the situation in Batam, the establishment of the zone also stimulated the growth of an informal services industry, which substituted for decent public facilities; illicit businesses, such as human trafficking, also arose. Access to land for housing and earning an income will be potential issues, together with workers' rights.

Important factors that need to be taken into account in case of Indonesia are the political negotiations between national and local administrations regarding spatial planning and profit sharing resulting from the marketization of labour and land. Political representation is therefore compromised and corrupted by

the money involved, to say nothing an all too easily manipulated and corrupted electoral system.(Harvey 2005 : 205). The major issue here is the absence of democratic control over the production process and natural resources.

To create an equitable program, we first need to challenge the neoliberal discourse of community as social capital-bearing individuals.(Gillan and Pokrant 2009: 15) In the case of organizing in the zone, we have witnessed how the corporation, with the state on its side, has re-shaped the community to serve their own interests. The externalizing of the production and public land and utility costs forces the community to serve the interests of the corporation. The establishment of SEZs and economic corridors, underpinned by primitive forms of accumulation by dispossessing others of their land and the dismantling of union power, requires us to rejuvenate the organizing strategy. Forging cross sector alliances between workers and the community is one strategy that can be explored further.

Second, as the current political representation and electoral system is obviously corrupted by money-power and corporation interests, there is a need to identify alternative systems of representation in order to ensure democratic control over production and natural resources. What is happening is unfettered market power penetrating and commoditizing every aspect of life. The interest of corporations undermines the sovereignty of state and people. The people's political self organization has been incompatible with the power of market, combined with the parliamentary democracy serving its interest. The strategy to be developed should be aimed at building a "countervailing power" against market control.

Third, the process toward democratic control over production and natural processes can be initiated by exercising the political bargaining power of sectors severely impacted by the establishment of the zone. Steps should be taken to ensure the compatibility of people's political organizations (better training and education at all levels, i.e, the union, community leaders, and grassroots citizens) to counter the power of the market and state agents that operate under market imperatives.

## Endnotes:

1. Indonesia Spatial Planning Law (No 26/2007) is the replacement of the national spatial planning law 1992. The law gives the authority to the provincial government to draft their own development plans which includes spatial arrangement for the plan
2. Retrieved from <http://www.batam.go.id/home/eng/index.php>
3. Singapore Electronics Industry Directory 2010/2011
4. *Singapore's Semiconductor Landscape*, Fong Ping Fen Head (Electronics), May 2008
5. *ibid.*,
6. Singapore's Electronic Industry-Facing Challenges, But First Mover Advantages, [http://singapore.usembassy.gov/uploads/images/kT16tWH8gc2pmfbb1PPV7g/ElectronicsInd\\_04.pdf](http://singapore.usembassy.gov/uploads/images/kT16tWH8gc2pmfbb1PPV7g/ElectronicsInd_04.pdf), February 20,2004
7. *ibid.*,
8. *ibid.*,
9. As cited in *Triangulating the borderless world: geographies of power in the Indonesia-Malaysia-Singapore Growth Triangle* (Sparke, Sidaway, Bunnelt and Wart 2004)
10. Pattern of trade and competition, and specialization and concentration on key industries or technological mixes or on particular labour relations and skills, interlink regional economies loosely into some patterned whole of geographical uneven development (Harvey 2003 :103)
11. The Salim Group is a business octopus owned by an Indonesian conglomerate who benefit many incentives by becoming the crony of authoritarian Soeharto Regime in Indonesia
12. As cited in *Triangulating the borderless world: geographies of power in the Indonesia-Malaysia-Singapore Growth Triangle* (Sparke, Sidaway, Bunnelt, and Warrt 2004)
13. The signatories of Kyoto Convention commit to implementing the best practices of The World Custom Organization for policies and procedures. (USAID, 2005). Free zone, according to the convention, should be an enclave outside the country's custom territory. Therefore, the zone should not mix with the population dwelling area.
14. Indonesia entered post-oil-recession era in 1982-1986. In April 1982, the oil glut in international market compelled Indonesia to cut oil production by 18 percent through the OPEC agreement, which was one of the essential causes of the drastic downfall of real GDP growth rate from 7.9 percent (1981) to 2.2 percent (1982). (Sato, 1994)
15. DSP is list of onvestment priorities
16. "RI eyes gains in US-S'pore free trade" (The Jakarta Post 2002)
17. "Indonesia on track to become electronic production base" (The Jakarta Post 2010)
18. *ibid*
19. *ibid*
20. "February in review" (The Jakarta Post 2010)
21. *ibid.*
22. Interview with Agus Sriyono, chairperson of division of electronics sector, FSPMI Batam, December 27,2009
23. Interviewed on December 25,2009
24. The practice of contract and outsourcing workers in metal industry in Indonesia, Akatiga-FSPMI-FES, August 2010
25. Interview with Nurhamli, FSPMI Branch Consulate, December 25,2009 and Agus Sriyono, a former worker of Panasonic Shikoku, January 18,2011
26. As of end 2011, there are three unions in Batam, Indonesia Metal and Elektronik Workers Union (Serikat Pekerja Seluruh Indonesia Logam, Metal, Elektronik, SPSI Lomenik), Indonesia Labour Union (Serikat Buruh Seluruh Indonesia, SBSI) and Federation of Indonesia Metal Workers (Federasi Serikat Pekerja Metal Indonesia, FSPMI)
27. "41 illegal ports in Batam make way for illegal entry: Authorities" (The Jakarta Post 2009)
28. "Batam have more lowcost apartments" (The Jakarta Post 2010)
29. *ibid*
30. "Ministry investigates illegal copper slag import" (The Jakarta Post 2009)
31. "Domestic firm handle Suramadu bridge" (The Jakarta Post 2010)
32. "Government set three SEZs agribusiness" (The Jakarta Post 2010)
33. "Will the economic corridor policy live on paper only?" (The Jakarta Post 2011)

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