



Batam: An Instrument for Economic Development and Recentralisation

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By Tharmendran Vatatheeswaran

SYNOPSIS

The Indonesian central government introduced Government Regulations (PP) 28/2025 and 25/2025 to streamline licensing procedures and attract greater investment. However, behind the reforms lies an intent to recentralise authority in Batam City. This paper seeks to examine the motivations and implications of these new regulations. To fully grasp Batam's significance, it should be viewed not simply as a city, but as an instrument of economic development and recentralisation.

COMMENTARY

As Indonesia recalibrates its economic governance in the wake of the [2020 Omnibus Law on Job Creation](#), Batam, the largest city in the Indonesian province of Riau Islands, has emerged as a focal point in the country's pursuit of growth through tightened regulatory reforms. Established as a Free Trade Zone (FTZ) in [2007](#), Batam's tax incentives and investment concessions have made it attractive for foreign capital. Consequently, the island has become one of Indonesia's leading centres of growth.

To enhance Batam's growth capacity, the government introduced new regulations, Government Regulation (PP) No. 28/2025 and PP No. 25/2025. They extend the Omnibus Law's agenda of streamlining business licensing processes, aiming to enhance Batam's attractiveness as an industrial and investment hub.

In practice, however, these measures carried two implicit consequences. First, by granting BP Batam – a central government agency – authority on par with or even exceeding that of the city's government, they effectively support President Prabowo Subianto's efforts to recentralise local authority. The increased dominance of central

interests challenges the local government's autonomy. Second, given BP Batam's mandate as an economic agency, its expanded authority may prioritise economic growth over social welfare, as evident in the past.

Inefficiencies in Batam's Dualistic Governance Structure

Batam possesses a unique dualistic governance structure. The city's government assumes an administrative role, focusing on public services, governance and other local affairs, while BP Batam is solely responsible for [developing](#) the region's FTZ. Meanwhile, local governments in other municipalities generally handle all local affairs, from public services to economic development.

BP Batam, originally founded in [1973](#) as the Batam Industrial Development Authority, was established to accelerate the island's inherent growth potential. Located near the Malacca Strait and adjacent to Singapore, Batam's strategic position made it a critical node in Indonesia's economic development agenda.

As of 2024, Batam's economic growth was [7 per cent](#), higher than the national average of 5 per cent. However, the Batam City Government is relatively new, having only been established after the *reformasi* period. Consequently, BP Batam's prominent presence has put it at odds with the new local government, which is bound by Indonesia's decentralisation laws.

Administrative overlaps between the two government bodies have also created bureaucratic inefficiencies and disrupted investment inflows. For instance, in 2015, [22,000 land allocation titles](#) remained unresolved due to conflicting rulings between BP Batam and the city government. The disagreements stemmed from competing motives and overlapping responsibilities. BP Batam, driven by its focus on economic expansion, oversaw land allocation, whereas the city administration, guided by social considerations, was responsible for [spatial planning](#). Due to these inefficiencies, the Batam FTZ achieved only [55.2 per cent](#) of its investment target between 2020 and 2024.

Improving Efficiency While Recentralising Powers

To address these inefficiencies, the central government implemented a series of regulatory reforms, including PP No. 28 and PP No. 25. While these reforms outlined streamlined administrative processes and clarified areas of responsibility, they implicitly recentralised powers.

On the surface, PP. No. 28 appears to be a genuine effort to create a more integrated licensing structure, in line with the Omnibus law. The regulation reinforces the Online Single Submission (OSS) system as the central digital platform for all business permits, while prohibiting state bodies from issuing licenses outside the OSS framework.

Furthermore, the regulation established a risk-based licensing model, assigning oversight roles to ministries, regional governments, and zone authorities based on the assessed risk levels. Previously, Indonesia's licensing system was more

[fragmented](#), requiring investors to approach multiple agencies individually through manual, paper-based procedures that created delays and inconsistencies. Overall, PP No.28 appears to streamline regulatory processes to promote investment.

However, taken together with PP. No. 25, the new regulations signal a recentralisation of powers in Batam and a weakening of the Batam city government's authority. PP No. 25 [stipulates](#) that all authority to issue permits in Batam's FTZ would be transferred to BP Batam. Meanwhile, the city government's authority is limited to areas outside the FTZ, namely the Belakang Padang and Buling sub-districts. In comparison, the business agencies in other FTZs, such as Karimun and Bintan, do not enjoy the same privileges and must coordinate with their local governments.

Overall, the new regulations accorded to BP Batam an unprecedented level of authority that surpasses that of the local government in the FTZ. PP 28's restrictions on licenses issued outside of the OSS system curtail the city government's ability to act as an effective check on BP Batam. Consequently, these new regulations risk transforming Batam's FTZ into a model of centralised administration, undermining Indonesia's decentralised governance system.

Impact of the New Regulations

Overall, the two PPs, while aiming to alleviate bureaucratic inefficiencies, have granted BP Batam greater institutional autonomy, comparable to that of a municipal government. As a central government agency, BP Batam's newfound autonomy cements Jakarta's influence in the region.

This phenomenon also raises the likelihood that economic development will be prioritised over local priorities, as Prabowo seeks to achieve his 8 per cent growth target. This scenario has occurred before. In 2023, BP Batam endorsed the development of the [Rempang Eco-City project](#), aiming to transform the area into a world-class tourism and economic hub. However, it necessitated relocating 855 families in the designated area, triggering public outcry and culminating in a protest on 7 September 2023. The project illustrated BP Batam's purely economic motives, which often neglect the welfare of Batam residents.

Now, with BP Batam's enhanced institutional autonomy, there is a danger of recurrence. Moreover, the legalisation of such governance structures sets a precedent for the central government to replicate similar models in other FTZs, thereby recentralising power under the pretext of increasing efficiency and investment.

Explaining BP Batam's Extensive Powers

This phenomenon raises a key question: Why has BP Batam, in particular, been entrusted with such far-reaching powers, surpassing those of other free trade zone authorities in Karimun and Bintan, as well as its own local government? It is important to note that Batam is no ordinary city or subregion. Owing to its strategic location, it has long served as a gateway for foreign investment into Indonesia and the wider

region. BP Batam's investment [reports](#) highlight a diverse range of investors from countries such as the Netherlands, China, France, Japan, and Singapore.

Batam's strong appeal to international investors and [large capital inflows](#) therefore demands a form of economic diplomacy that, under the 2004 decentralisation law, falls within the mandate of the central government. Given that Batam contributes the bulk of the province's GDP, it is likely that Jakarta views the city not merely as a local jurisdiction but as a vital economic hub central to Indonesia's foreign policy and economic strategy.

Looking Ahead

Looking ahead, the central government must balance between promoting Batam's economic growth and safeguarding its decentralised governance framework. Dismantling Batam's dualist governance structure will be complex as it becomes deeply embedded in the island's political and institutional fabric.

Instead, government strategies must work within the reality that the existing structure will continue for the foreseeable future. One possible approach is to require BP Batam to systematically evaluate the social and democratic implications of every major project it endorses.

Ultimately, how Batam manages this balance between economic dynamism and democratic accountability will determine not only its long-term stability as an FTZ but also the credibility of Indonesia's decentralisation model.

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