

8-2-2019

Promoting the Indonesian Special Economic Zones for Tourism: Lessons from Mandalika and Tanjung Kelayang

Latif Adam

The Center for Economic Research-LIPI, latifadam.lipi@gmail.com

Follow this and additional works at: <https://scholarhub.ui.ac.id/efi>



Part of the [Finance Commons](#), [Macroeconomics Commons](#), [Public Economics Commons](#), and the [Regional Economics Commons](#)

Recommended Citation

Adam, Latif (2019) "Promoting the Indonesian Special Economic Zones for Tourism: Lessons from Mandalika and Tanjung Kelayang," *Economics and Finance in Indonesia*: Vol. 65: No. 1, Article 3.

DOI: 10.47291/efi.v65i1.609

Available at: <https://scholarhub.ui.ac.id/efi/vol65/iss1/3>

This Article is brought to you for free and open access by UI Scholars Hub. It has been accepted for inclusion in Economics and Finance in Indonesia by an authorized editor of UI Scholars Hub.

Promoting the Indonesian Special Economic Zones for Tourism: Lessons from Mandalika and Tanjung Kelayang

Latif Adam^{a,*}

^aThe Center for Economic Research, Indonesian Institute of Sciences (LIPI)

Abstract

This paper aims to analyze the design and implementation of the policy to develop tourism special economic zones (TSEZs) in Indonesia with special reference to Mandalika and Tanjung Kelayang. Using descriptive analysis, it is revealed that these TSEZs have not attracted many investors yet. The policy design to promote the two TSEZs is unattractive, unclear, and at odds with the characteristics of the tourism sector. Furthermore, the implementing institutions have insufficient capacity and professionalism to implement the policy. Various critical actions are necessary to take. First, accelerating the provision of infrastructure. Second, clarifying several regulations to be in compliance with the characteristics of the tourism sector. Third, improving the capacity of the implementing institutions to manage the TSEZs. Fourth, encouraging both TSEZ Managements to collaborate.

Keywords: SEZs; tourism; regulation; infrastructure; incentive development

JEL classifications: H3; H7; K2; R3

1. Introduction

Tourism plays an important role in the economic development of a country. Several studies (e.g. Creaco & Querini 2003, Cortés-Jiménez & Artís 2006) identify various benefits that tourism can provide for a country. *First*, generating foreign reserve. The more and the longer tourists, particularly foreign tourists, visit, stay, and spend their money in a country, the more foreign reserves that the country shall collect. *Second*, having a strong backward and forward linkages with other economic sectors, including industry, handicraft, hotel, restaurant, trade, and transportation. *Third*, playing a direct and an indirect impact on the creation of employment and income.

Indonesia has a strong factor endowment to pro-

mote tourism. This is particularly true in relation to its natural beauty and geographical landscape, abundant socio-culture, and heritage. Accordingly, this is not surprising should the government of Indonesia has a high expectation to explore, develop, and obtain optimal benefits from tourism. Various policies have been introduced to actualize such expectation. One of the important policies is to create new tourist destinations in Bali through the development of special economic zones for tourism (TSEZs) (Ratman 2016).

TSEZ is a new variant introduced by the government following the promotion of SEZ for Industry and Trade. According to the Law (UU) No. 39/2009, SEZ is defined as a privileged and limited area in the legal territory of the Republic of Indonesia (NKRI) established specifically to accommodate industrial activities, exports-imports, and other economic activities with high economic value and international competitiveness. The development of

* *Corresponding Author:* LIPI Pusat Sasana Widya Sarwono (SWS). Jl. Jend. Gatot Subroto 10, Jakarta 12710, Indonesia. Email: latifadam.lipi@gmail.com.

SEZ is intended to encourage an increased investment through the preparation of areas that have geoeconomic advantages in a strategic location (geostrategic). SEZ is also expected to be a model to accelerate economic growth on the basis of regional development.

Similar to SEZs for Industry and Trade, the governance of TSEZs is generally regulated through the UU No. 39/2009 and the Government Regulation (PP) No. 100/2012 in lieu of PP No. 2/2011. Practically, the governance of each SEZ, including TSEZ, has its own legal basis. For example, Mandalika TSEZ is governed through PP No. 52/2014, while Tanjung Kelayang TSEZ is regulated through PP No. 6/2016.

As noted previously, the development of TSEZs is a crucial policy that the Government of Indonesia has chosen to promote new tourist destinations in Bali. Unfortunately, there has not been any studies available on the design and implementation of the TSEZs policy to be utilized as academic and lesson learned policy references. Thus, the purpose of this paper is to analyze the design and implementation of the policy to develop TSEZs in Indonesia with special references to Mandalika (Central Lombok, West Nusa Tenggara) and Tanjung Kelayang (Belitung, Bangka-Belitung Islands). Mandalika and Tanjung Kelayang are selected as references since the former is pioneer and become the first developed TSEZ in Indonesia, while the latter is the latest developed TSEZ. By referring to these two TSEZs, it is expected that this paper shall be more representative to examine the dynamism in the development of Indonesian TSEZ.

The analytical portion of this paper shall rely on the comparison of the design of TSEZ policy and its implementation and the comparison between the two locations of this study (Mandalika and Tanjung Kelayang) by employing descriptive analysis method. It is organized as follow: Section 2 reviews literatures

on SEZs; Section 3 briefly discusses methodology applied; Section 4 critically analyzes the design and implementation of the policy to develop TSEZs in Indonesia; Section 5 concludes and distills important policy implications of what shall and shall not be conducted by the government to promote the development of TSEZs.

2. Literature Review

2.1. SEZs

SEZ has evolved into various forms and been increasingly selected as instruments to boost economic development in many countries (CIIP 2017). Over the last three decades, SEZ has grown, developed, and spread across the world. During 1986–2006, the number of SEZ increased from 176 in 47 countries to approximately 3,500 in 130 countries (Farole 2011, Nyakabawo 2014). In 2014, the number of SEZ in the world increased again to more than 4,300 (*The Economist* 2015).

SEZ is generally defined as geographically designated areas of a country with clear boundaries, intended for specifically targeted economic activities (Hamada 1974, Ge 1999, Pakdeenurit, Suthikarnnarunai, & Rattanawong 2017, CIIP 2017). Routine business activities of SEZ are supported through systems, rules and regulations, and special arrangements that are frequently different from those applicable to the rest of the country (Cieřlik & Ryan 2005, Nyakabawo 2014, OECD 2017).

The main objective of developing SEZ is to attract foreign investment and increase economic competitiveness (Pakdeenurit, Suthikarnnarunai, & Rattanawong 2014, CIIP 2017). SEZ is also intended to facilitate and stimulate economic growth, create employment opportunities and increase exports (Ishida 2009, UNIDO 2015). SEZ is eventually expected

to play the role of a catalyst in the acceleration of infrastructure development, currency exchange collection, and technology transfer and innovation development (Pakdeenurit, Suthikarnnarunai, & Rattanawong 2014, OECD 2017).

The managerial practices adopted to achieve the aforementioned goals vary from one SEZ to another. However, there are four distinguishing general characteristics that are the hallmark of the SEZ's managerial system around the world. *First*, it is located in a measurable delimited area and has clear geographical boundaries (Zeng 2010, CIIP 2017). Moreover, land use in the area has its own rules mostly divided into several zones (Nyakabawo 2014, CIIP 2017).

Second, SEZ is constructed to attract multiple companies in one geofigureic location to enjoy the benefits of agglomeration (Hamada 1974, Ge 1999, CIIP 2017). By agglomerating, companies in SEZ are able to increase their economies of scale as they can easily access both input and product markets. Agglomeration shall also enable companies to reduce transportation costs since they are located in a close proximity and can jointly utilize facilities, such as electricity, water, telephone, and transportation networks (Putra 2015).

Third, SEZ has a management body (the Management) with the function of coordinating activities within the zone, ensuring that tenant companies receive the promised services, and advocating companies in the zone when they interact and communicate with the government (CIIP 2017). In China, SEZ works in a decentralized manner (Huang 2012, Xu 2011). The local government commonly forms Administrator (administrative committee) to oversee the economic and social management of the zone. The Administrator also approves FDI projects, builds and improves the infrastructure, and regulates the land use on behalf of the local administration (Zeng 2011, CIIP 2017).

Fourth, SEZ is equipped with a special regulatory regime that is different from that applicable outside the zone. SEZ has its own rules and regulations regarding land use, the provision of infrastructure, business licensing procedure, fiscal incentives, goods mobility, immigration, and the utilization of foreign workers. This special regulatory regime provides privileges to companies in SEZ (Pakdeenuurit, Suthikarnnarunai, & Rattanawong 2017, CIIP 2017). It is expected that such privileges shall have beneficial impacts on improving not only the competitiveness of companies in the zone, but also the role of SEZ as a center for economic growth.

Observed from a broader perspective, special managerial system, regulatory regime, and policy instruments employed shall facilitate SEZ to have at least two fundamental roles in the economy. *First*, SEZ can play the role of a laboratory to carry out experiment in trade and investment liberalization prior to being implemented countrywide. *Second*, SEZ may become a media to overcome market and coordination failures, restructure market forces, and initiate economic reform (World Bank 2008, Farole & Sharp 2017, Kuzmenko et al. 2018).

Various empirical studies (e.g. Zeng 2012, Tao, Yuan, & Li 2016, Herlevi 2016, CIIP 2017) conclude that special managerial system, regulatory regime, and policy instruments adopted allow SEZs to successfully attract investors, increase exports, and create employment opportunities. In China, as Zeng (2012) and Herlevi (2016) point out, SEZs emerge as the core of cluster and regional based economic development. SEZs in China also facilitate acceleration in the process of technology transfer. Observed from the perspective of domestic companies, SEZs are the place of learning and the source of innovation to improve their technological capabilities (Tao, Yuan, & Li 2016, CIIP 2017).

However, the efforts to design and implement SEZs policy are highly challenging and require a wise con-

sideration. Several studies (e.g. Farole 2011, Tantri 2014, Newman & Page 2017) reveal that a significant number of SEZs has been less successful in attracting investment, particularly foreign investment. In addition, in several African countries, instead of providing benefits, the development of SEZs causes detrimental effects on the economies (Newman & Page 2017). As they occur in Zambia, Ethiopia, and Nigeria, the detrimental effects arise since, on the one hand, these countries lose their opportunities to collect revenue as the result of massive provision of fiscal incentives (taxes and customs). On the other hand, their government spending increases significantly because of massive infrastructure development within and around the zones (Brautigam & Xiaoyang 2011, *The Economist* 2015).

In India, as Tantri (2014) points out, several SEZs have not been quite successful in stimulating innovation and increasing competitiveness sustainably. Transfers of technology from foreign investment to local companies transpire slowly and insignificantly impact on the improvements of technological capabilities in the local companies. Local workers involved in SEZ activities are concentrated in the types of low skill jobs. SEZs also operate exclusively and separately from the economic activities outside the zones.

Similar problems are also encountered by several SEZs in Vietnam (UNIDO 2015), Philippines (ASEAN Secretariat 2017) and Thailand (Pakdeenurit, Suthikarnnarunai, & Rattanawong 2017). Moreover, Pakdeenurit, Suthikarnnarunai, and Rattanawong (2017) mentions that SEZs might result in the misallocation of resources, particularly land resources. It means that, on the one hand, SEZs encourage a sharp increase in the price of land in the vicinity of the zones, mostly because of speculative practices, while on the other hand, land uses in the zones are not optimal, in which the lands are not fully utilized due to the lack of interest from investors to locate their companies in the zones.

Based on the extensive empirical studies on the success and failure of SEZs in several ASEAN countries, the ASEAN Secretariat (2017) concludes that the provision of a special regulatory regime, compelling master plans and excellent infrastructure are necessary, but insufficient for SEZs to play their role in attracting and increasing investment, creating employment, and generating spill-over for the rest of the economy. The development of SEZs has to be relevant and contextual to the dynamics of the local, national and regional economies in which they are located, efficiently designed, and professionally managed. Table 1 identifies various critical points to be considered in promoting SEZs.

The aforementioned guidelines may be developed on the basis of experiences in the SEZs for manufacturing and trade. However, an interesting finding from the limited availability of literatures on TSEZ reveals that TSEZs should be developed by considering a number of points exactly similar to those listed in the guidelines, including measurable and time-bound objectives, compliance of infrastructure investors in TSEZs, efficient and professional administrative services, and collaboration among TSEZs (Agarkova 2008). This suggests that the guidelines are also relevant for TSEZs.

In addition to a number of points listed in the guidelines, location is also a critical factor in the development of TSEZs. TSEZs should be developed in a short distance from the airport with relatively easy access to tourist objects and attractions (Maslikhina 2016). Supporting facilities and institutions, such as banking, money changer, souvenir market, and travel agents, should be well developed as important parts of the development of TSEZs (TRA 2014).

TSEZs should also be designed to serve tourist comfortability. Accordingly, they should become objects of constant reviews and upgrading. For example, the government in collaboration with the management of TSEZs have to be active and inno-

Table 1: Guidelines for SEZs Development

Determinants	Points
Promotion of clear development strategy	<ul style="list-style-type: none"> ● Specifying in detail the problems that the zones should address ● Setting measurable and time-bound objectives ● Considering SEZs as a framework for testing and catalyzing economic reforms in the economy as a whole ● Ensuring coherence between SEZs and the overall economic policy framework of the country and region ● Planning concrete measures to promote linkages between SEZ tenants and the domestic economy ● Ensuring coherence and cost-efficiency of incentives ● Engaging anchor investors and other stakeholders early in the design phase
Clarification and separation of roles and responsibilities of institutions	<ul style="list-style-type: none"> ● Ensuring that legislation covers all relevant aspects including the establishment of necessary institutions and regulations ● Identifying institutions responsible for the regulation and operation of the zones ● Ensuring compliance of infrastructure investors in SEZs ● Ensuring sustainable monitoring and evaluation of the zones programmed
Delegation of authority and ensuring coordination between SEZs and other institutions	<ul style="list-style-type: none"> ● Providing clear delegation of authority ● Providing efficient and professional administrative services ● Establishing properly designed one-stop shops
Provision of necessary resources and building strong institutional capacities	<ul style="list-style-type: none"> ● Ensuring professional human resource management and accessibility for SEZ ● Promoting good governance
Increasing SEZ cooperation	<ul style="list-style-type: none"> ● Promoting collaboration among SEZs ● Developing connectivity among SEZs ● Exploring co-promotion, co-branding and co-marketing among SEZs

Source: ASEAN Secretariat, 2017, *ASEAN Guidelines for Special Economic Zones (SEZs) Development and Collaboration*, pp. 6–7

vative in identifying ways and means of developing new tourism products and destinations to explore the unique and rare tourist attractions (TRA 2014, Maslikhina 2016, Sobirov 2018). The development of new tourist products and destinations shall positively impact on maintaining or increasing tourist comfortability. The maintained or increased tourist comfortability shall assure the TSEZs to maintain their competitiveness and provide long term benefits (TRA 2014).

Security and safety are other determinants that can influence tourist comfortability. In several African tourism zones, tourist comfortability is frequently disturbed by the emergence of conflict with the local communities. To prevent the emergence of such conflict, the TSEZs should be equipped with a strategic method to improve the capacity of the local communities related to tourism development. The method should be designed to have beneficial impacts on enhancing the acceptance and ac-

knowledgement of the local communities regarding TSEZs either in the forms of training or open visits. The training may include crafts skills, massage skills, convenient shop management, financial management, and others (TRA 2014).

3. Method

This paper employed descriptive analysis method, enabling the author to systematically, factually, and accurately analyze the gap between the design and the implementation of the policy to promote SEZ. The adoption of the method shall also allow the author to identify variation in the problems, challenges and opportunities to promote the Mandalika and Tanjung Kelayang TSEZs, correlate between the determinants of TSEZ (special regulatory regime, master plans, infrastructure) and the capacity of the implementing agencies, particularly the Administra-

tor and the Management (*Badan Pelaksana*), and generalize important findings that have universal validity.

To support the descriptive method, this paper adopted comparative analysis techniques, enabling the author to compare and contrast not only the design and the implementation of the policy to promote TSEZ, but also the capacity of TSEZ implementing institutions.

To support analytical process, this paper used both primary and secondary data. Secondary data were, in large part, collected from the SEZ National Council and the Committee for Acceleration of Priority Infrastructure Delivery (KPIP). Primary data were collected by visiting and interviewing stakeholders involved in the development of Mandalika and Tanjung Kelayang, including the Administrator, the Management, tenant companies, the Local Government, and members of the Regional House of Representatives (DPRD).

4. Results and Analysis

4.1. The Indonesian Policy Design of SEZs for Tourism

TSEZ is an integrated area of tourism, developed to support ecological, natural, and cultural tourisms, entertainment and recreation events, and meetings, incentives, conferences, and exhibitions (MICE) (Agarkova 2008). The objectives of promoting TSEZ, according to the SEZ National Council (2018), are as follows. *First*, attracting and increasing investments in tourism through the preparation of designated areas endowed with geoeconomic and geostrategic advantages. *Second*, exploring and exploiting optimum benefits of tourism for the economy. *Third*, accelerating and distributing economic development among regions through select-

ing and promoting a privileged limited area to play the role of the center of economic growth.

Similar to SEZ for Industry and Trade, the institutional structure of TSEZ involves not only the central and local government agencies, but also business entities including state owned enterprises (SOEs) and the private sector (Figure 1). Therefore, institutional arrangement of SEZ is a manifestation of public private partnership (PPP) format in which the government and the private sector can interact and communicate within the arrangement.

The SEZ development initiatives, according to PP No. 2/2011, can come from business entities, district/municipal governments, and provincial governments (article 4) or the central government through a proposal submitted by its ministries/non-ministerial government agencies (LPNK) (article 5). Approval (or rejection) of SEZ development initiatives is part of the authority of the National Council. The requirements that must be fulfilled by the initiators when proposing SEZ development plans are as follows. *First*, a map of the proposed development location with its clear area size that is separated from the residential area. *Second*, a spatial plan of the proposed SEZ development equipped with zoning regulation. *Third*, a working development plan and its funding sources. *Fourth*, an analysis of the environmental impacts of the zone in accordance with the provisions of the legislation. *Fifth*, a feasibility studies report on economic and financial issues. *Sixth*, a strategic plan on the operational period of the proposed SEZ.

As found in China (Huang 2012, Xu 2011), the institutional structure of SEZ in Indonesia has been designed to adopt a decentralized and hierarchical model (Figure 1). This model is important as an attempt to stratify the complexity of issues and problems that usually arise and accumulate in SEZs (Huang 2012). The hierarchical institutional structure shall also facilitate interaction among institu-

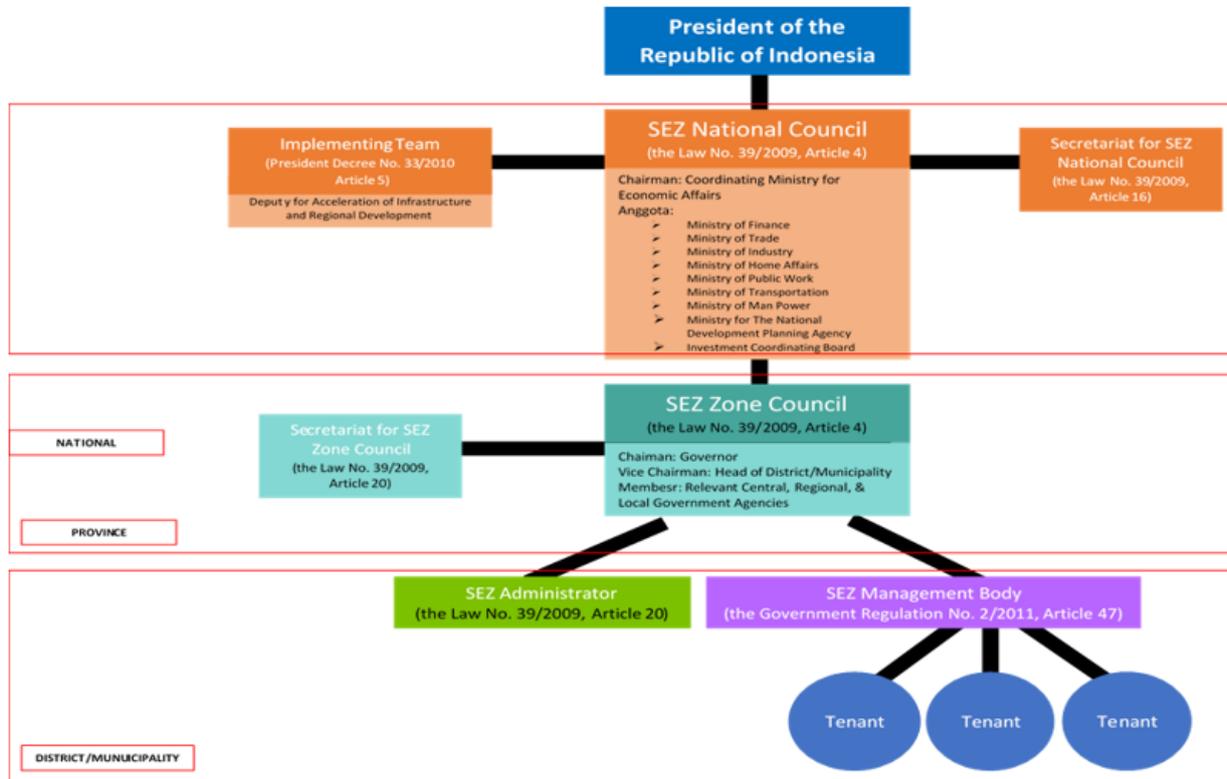


Figure 1: Institutional Arrangement of SEZ

Source: SEZ National Council, 2018, *SEZ Institutional Arrangement*

tional levels to transpire in a synergistic and systematic manner. As Xu (2011) emphasizes, synergistic and systematic interactions among institutional levels are the keys for SEZ to achieve its development goals.

Each level in the SEZ institutional structure has its own roles and responsibilities. Interestingly, the roles and responsibilities of each level are interrelated to each other. The roles and responsibilities of one institutional level are not only a derivation from those above its level, but also a guideline for those below its level. For example, the Zone Council has a role to not only implement general policies for the establishment and development of SEZs prepared by the National Council, but also determine strategic plan that guide the Administrators to play their role and responsibilities (Table 2).

The SEZ institutional structure as shown in Figure 1 is actually generic and identical for all SEZs. However, Table 2 also shows that the legal basis as main regulatory reference for the operation of SEZs differs from one another. The variation mainly arises because of differences in sectoral ministries involved, provinces and districts in which SEZs are located, and business entity appointed as the Management of the zones.

Table 2 also indicates that the spearhead managing business activities, constructing infrastructure, and promoting the attractiveness of SEZ is the Management, selected and appointed by the regent/mayor where the zone is located. According to UU No. 39/2009 article 6, the candidates for the Management eligible to have the authority to manage, develop, and promote SEZ may come from one of the following business entities: (1) State-

Table 2: The Roles and Responsibilities of Each Level in the SEZ Institutional Structure

Institution	Mandalika	Tanjung Kelayang	Roles and Responsibilities
National Council (Dewan Nasional)	<ul style="list-style-type: none"> • Law (UU) No. 39/2009 • Government Regulation (PP) No. 100/2012 	<ul style="list-style-type: none"> • Law (UU) No. 39/2009 • Government Regulation (PP) No. 100/2012 	<ul style="list-style-type: none"> • Designing SEZ National Master Plans; • Setting general policies and strategic plan to accelerate the formation and development of SEZs; • Determining minimum standards and requirements for infrastructure and service in SEZs; • Assessing and selecting the proposals of SEZ development plans; • Providing recommendations for SEZ development plans; • Reviewing and providing recommendation on action plans for underdeveloped SEZs; • Resolving strategic and urgent problems in the implementation, management and development of SEZs; • Monitoring and evaluating (monev) the progress and sustainability of SEZs and providing recommendation to follow-up the results of monev to the President, including proposing revocation of SEZ status.
Zone Councils (Dewan Kawasan)	Presidential Decree No. 46/2014	Presidential Decree No. 27/2016	<ul style="list-style-type: none"> • Implementing general policies that have been designed by the National Council on managing and developing SEZs in their working areas; • Establishing Administrative Committees (Administrators) in each SEZ; • Monitoring, controlling, evaluating, and coordinating the tasks of the SEZ Administrators in the implementation of one-stop service and SEZ operations; • Setting strategic actions to solve problems in the development and operation of SEZ activities in their working area; • Submitting annual SEZ managerial reports to the National Council at the end of the year; and • Updating and providing incidental strategic reports to the National Council.
Zone Council Secretariat (Sekretariat Dewan Kawasan)	The Decree of West Nusa Tenggara Governor No. 912 – 825/2014	The Decree of Bangka-Belitung Governor No. 188.44/740/BAPPEDA-IV/2016	<ul style="list-style-type: none"> • Providing operational and administrative supports to the Zone Council • Coordinating, synchronizing, and integrating administrative activities to support the Zone Council • Providing services for collecting, processing, and presenting data and preparing reports on the activities of the Zone Council
Administrative Committee (Administrator)	<ul style="list-style-type: none"> • The Decree of West Nusa Tenggara Governor No. 972-403/2015 • The Decree of Central Lombok Regent No. 512a/2014 	In the process of internal discussion by the provincial government	<ul style="list-style-type: none"> • Processing business licenses and other permits needed for companies in the SEZ through one-stop service; • Supervising and controlling the operationalization of SEZs; and • Submitting periodical and incidental reports on SEZ operations to the Zone Council.
Management Body (Badan Usaha Pembangun dan Pengelola)	PT ITDC through the Decree of Central Lombok Regent No. 513a/2014	PT Belitung Pantai Intan through the Decree of Belitung Regent No. 188.45/191.KEP/II/2016	<ul style="list-style-type: none"> • Organizing construction business activities in the SEZs • Developing and maintaining infrastructures in the SEZs

Source: SEZ National Council, 2018, *SEZ Organizational Structure*

Owned Enterprises/Regional-Owned Enterprises (BUMN/BUMD), (2) Cooperatives, (3) Private Sectors, (4) Joint Venture Enterprises between the Private Sector and/or Cooperatives and the Central and/or Provincial and/or Local Governments.

As noted previously, one responsibility of the Management is to develop and maintain infrastructure within the zone. Funding sources for developing and maintaining infrastructure may come from the central and/or local government; private sectors; collaboration among the central government, the

local government, and private sectors; and other legitimate sources in accordance with statutory provisions.

The availability of adequate infrastructure is one of the most important determinants to attract the private sector to invest in the SEZ. To this end, the National Council has been mandated by the law to provide serious attention to accelerate the provision of infrastructure in the zone. Should the SEZ Management is deemed to have insufficient capacity in developing and maintaining infrastructure in the

zone, the National Council has a legal basis (UU No. 39 of 2009, article 13) to take the responsibility from the SEZ Management by implementing its own policy initiative to construct and maintain infrastructure in collaboration with the central government, the regional government, and the private sector.

In addition to infrastructure, the efforts taken by the government to attract investors to invest in the SEZs have been initiated by providing various facilities and incentives in both fiscal and non-fiscal areas. PP No. 96/2015 article 2 explicitly explains six types of facilities and incentives offered to investors to invest in the SEZs, including: taxation, customs, and excise (fiscal field); goods traffic; employment; immigration; land; and business licensing.

In relation to business licensing, UU No. 39/2009 article 38 emphasizes that the procedures for business licensing in the SEZ shall be simple and reasonable. PP No. 96/2015 article 83 and the Presidential Decree No. 91/2017 article 20 as derivatives of UU No. 39/2009 article 38 explain that the acceleration and simplification of the business licensing process in the SEZ shall take the form of a checklist model. Checklist licensing model is a list of all required licensing documents that must be managed and completed by the Administrator as the authority to provide a One Stop Service in the SEZ within a specified time (3 hours).

The procedures for investors to have business licensing in the SEZ begin when they submit a proposal to the Administrator to obtain an indicative investment registration certificate. In line with this, the Administrator has a responsibility to assist investors in issuing seven documents as follows: (1) a deed of company and its legalization by the Ministry of Law and Human Rights (2) tax identification number (NPWP) (3) a company registration certificate (TDP) (4) an expatriate employment plan (RPTKA) (5) an expatriate working permit (6) import identification number (API) (7) customs identification

number (NIK).

Subsequently, the checklist signed by the investors can be used as a temporary permit to enjoy two groups of facilities and incentives. *First*, easing the procedure for obtaining facilities and incentives in relation to the issues of construction and commercialization. The investors shall obtain assistance with four types of requirements of construction and commercialization, namely: (1) an environmental management scheme and an environmental management and monitoring scheme (UKLUPL) (2) a land certificate (3) building construction permits (IMB) (4) a sector-specific business license. *Second*, easing the procedure for accessing facilities and incentives offered, namely: (1) fiscal incentives (2) employment facilities (3) immigration facilities (4) land certificate facilities.

In the fiscal sector, the government provides various tax and customs incentives as follows. *First*, PP No. 96/2015 article 7 arranges the provision of income tax reduction (tax allowance) for taxpayers conducting new investment plans. However, it is worth noting that the new corporate taxpayers are able to enjoy this facility should their business activities have been classified as the core sector in the SEZ production chains. They shall enjoy the facility of income tax reduction in the range of 20%–100% of the amount of the outstanding corporate income tax payable (Table 3).

Second, the provision of tax holiday facilities is in the range of 10% and 100% of the corporate income tax payable for 5–15 years and can be extended for 2 years with the discretion of the Minister of Finance. Taxpayers are only eligible for this facility should their main business activities operate in SEZ as stated in the principle permit and/or taxpayer's business permit attached when they submit the application to obtain income tax reduction. The proposal to obtain tax holiday facility shall be processed in the Investment Coordinating Board

Table 3: Several Important Points of the Facility of Income Tax Reduction in SEZ

Facilities	Important Points
Income tax reduction for new investments	<ul style="list-style-type: none"> • More than IDR1 trillion shall be granted for the period of 10–25 years since commencing commercial production and realizing the value of investment • Between IDR500 billion and IDR1 trillion shall be granted for the period of 5–15 years since commencing commercial production and realizing the value of investment. • Less than IDR500 billion in several specific SEZs determined by the National Council shall be granted for the period of 5–15 years since commencing commercial production and realizing the value of investment
Compensation for losses for 5 to 10 years	<ul style="list-style-type: none"> • Companies located in industrial estates and/or bonded zones • Companies focused on infrastructure development • Companies using domestic raw materials for at least 70% of total raw materials • Companies absorbing 500 to 1000 workers • Companies conducting research and development activities (R&D) • Companies reinvesting their profits • Companies exporting for at least 30% of total sales
Other facilities	<ul style="list-style-type: none"> • Business activities classified as the core sector in the SEZ production chains but excluded from enjoying the income tax reduction facility shall be granted another income tax facility in the form of a net income reduction of 30% of the total investment for 6 years or 5% each year • Depreciation of tangible assets and amortization of accelerated intangible assets for new investments and/or business expansion • Income tax imposition on dividends paid to foreign taxpayers other than permanent business forms in Indonesia of 10% or at a lower rate compared to applicable double taxation avoidance agreements

Source: The Government Regulation (PP) No. 96/2015 on Facilities and Incentives in the SEZs

(BKPM, for 25 days), and then the Ministry of Finance (for 20 days), including changes and improvements in the investment value plan. Should there is a decrease in the investment value plan, particularly for the telecommunications, information and communication industries, from initially more than IDR1 trillion to the range of IDR500 billion-IDR1 trillion, it shall only obtain income tax reduction by 50%. Conversely, should the investment value plan increases to the amount of more than IDR1 trillion, the taxpayers may enjoy an income tax reduction of 100%. Should the request to obtain tax holiday facility is rejected, taxpayers may alternatively enjoy tax allowance facility as long as their business is within the scope of the business sectors as regulated by PP No. 18/2015.

Third, in addition to income tax reduction and exemption, the government also offer facilities of Value Added Tax (VAT/PPN) and Value Added Tax for Luxury Goods (PPnBM) not collected as the government income from specific Taxable Goods (BKP) by business entities and/or business players

in the SEZs both from Other Places in the Customs Area (TLDDP) and non-TLDDP. VAT not collected is also granted for particular transactions of taxable goods carried out either by business players in the same SEZ, or between business players in one SEZ and their counterparts in the other SEZs. In this regard, particular taxable goods refer to goods and raw materials to be processed, assembled, and/or installed in other goods, goods intended for storage, assembly, sorting, packing, distribution, repair, and machinery reconciliation, and capital goods including equipment to support the production process in and the development of SEZs.

Fourth, business entities and players in SEZ also have an opportunity to enjoy duty free (exemption) facility for importing machineries for 2 years immediately following the approval to obtain the duty free import. Should the business entities and players have utilized domestic machineries for at least 30% of the total value of these machineries, they shall be allowed to enjoy other schemes of duty exemption for importing goods and raw materials

required to improve their production capacities for 4 years. They can also enjoy duty exemption for importing goods and raw materials needed in the regular production process for 2 years according to the installed capacity, and it can be extended for 1 year. In order to obtain the aforementioned duty free import facilities, the business entities and players must fulfill several requirements, including an explanation that the imported goods and machineries proposed to obtain duty free facilities have never been produced domestically, or should they have, their specifications and quantities have not met the needs.

In addition to fiscal incentives, business entities and players in SEZ are also eligible to enjoy non-fiscal facilities, such as ease of goods traffic and ease of expatriate employment. In relation to ease of goods traffic, PP No. 96/2015, article 31 up to article 33 point to two benefits that business entities and business players in SEZ can enjoy. First, they are exempted from importing and exporting several restricted goods. Second, they can use certificates of origin issued by the country of origin of the imported products to release goods from SEZ to Other Places in the Customs Area (TLDDP), or vice versa.

In relation to employment facility, PP No. 96/2015 article 34 states that business players in SEZ shall be facilitated to employ foreign workers (expatriates) should they have an expatriate employment plan (RPTKA) and an expatriate working permit (IMTKA). The submission and legalization of RPTKA and IMTKA can be processed through the Administrator who has been granted authority by the Ministry of Manpower.

4.2. The implementation of the Policy to Promote SEZs for Tourism

By 2019, the government set its target to gradually develop and promote 25 new SEZs across the country. However, KPPIP (2017) reports that currently there are only 12 SEZs with a legal basis that are officially decided by the government as new SEZs, namely: Sei Mangkei, Tanjung Api-Api, Tanjung Kelayang, Tanjung Lesung, Mandalika, Maloy Batuta, Palu, Bitung, Morotai, Sorong, Arun Lhokseumawe, and Galang Batang.

Of the 12 SEZs that have legalities, 8 SEZs are designed to become manufacturing and trade areas, while the other 4 SEZs are for tourism areas (Figure 2). This section shall analyze the implementation of the Indonesian policy to promote TSEZ in Mandalika and Tanjung Kelayang.

Mandalika is located in the southern part of Lombok Island, while Tanjung Kelayang is located in the western tip of Belitung Island (Figure 2). These two TSEZs rely on natural beauty, particularly maritime environmental landscape, as objects to attract tourists (Table 4). To this end, the location of these two TSEZs has been designed to approach the coast. Hotels and other MICE facilities as vocal sectors in the two TSEZs are placed and provided with space in their master plans to be constructed and developed in zone 1, namely around the coast.

Although they are both promoting maritime tourism, Mandalika and Tanjung Kelayang have a different tourist target. Located in between the two most popular tourist destinations in Indonesia, namely Bali and Komodo Island, Mandalika is on a strong tourist route. Accordingly, Mandalika can utilize its strategic geographical position to accommodate an abundance of tourists from both Bali and Komodo Island. At present, as mentioned by the Administrator of Mandalika TSEZ, tourists who visit Lombok mostly go via Bali. Not surprisingly, inter-

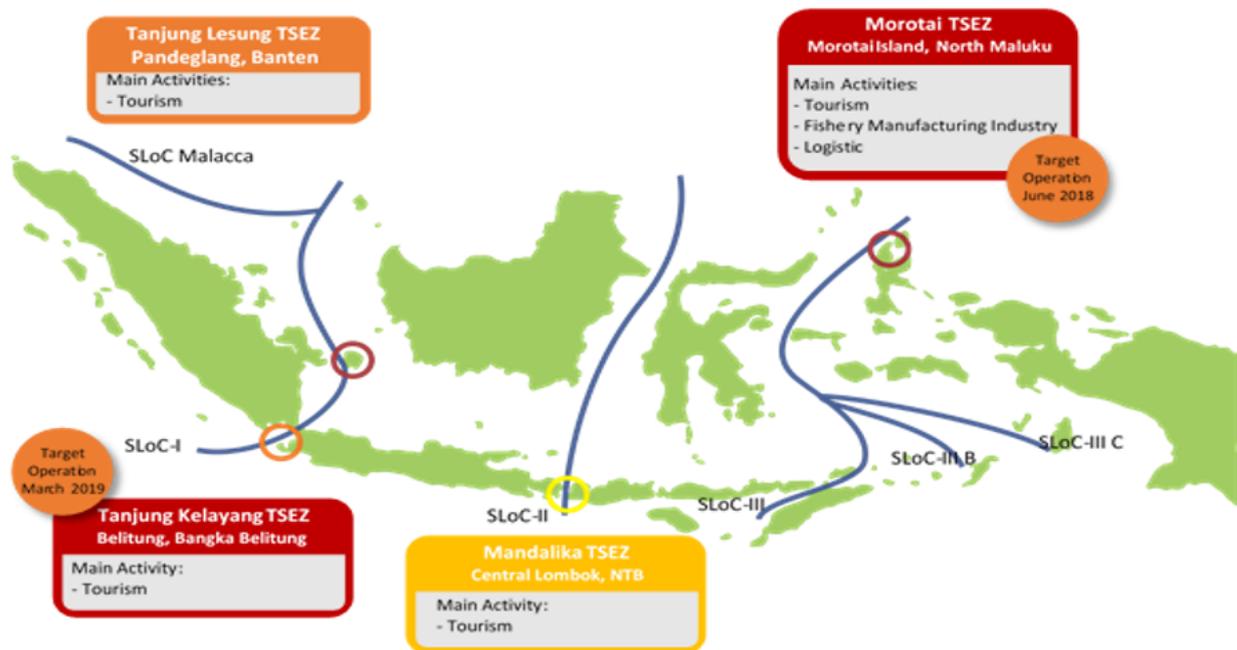


Figure 2: Distribution Map of the TSEZs

Source: SEZ National Council, 2018, *Distribution of Tourism*

national direct flights from Lombok International Airport are highly limited, only to Singapore (Air Asia, Silk Air, Singapore Airline, and Virgin Australia) and Kuala Lumpur, Malaysia (Air Asia).

The efforts to improve current status of Lombok to play the role of not only a buffer tourist zone, particularly for Bali, are crucial steps to be taken by the government of Indonesia and NTB to obtain optimum benefits from the development of Mandalika. This suggests that the government needs to create and diversify tourist objects and attractions in Lombok to be not too identical with those that have already become the icon of Bali. Otherwise, it is difficult to believe that Mandalika TSEZ shall play its role as a prime mover for the economy of NTB and succeed to achieve its target in attracting 2 million tourists per year (Table 4).

Different from Mandalika, Tanjung Kelayang is not located in a solid tourism chain. Consequently, Tanjung Kelayang is pushed by its geographical condi-

tion to be developed as a single tourist destination. This suggests that tourist objects and attractions in the vicinity of this TSEZ should ideally be more varied, not only relying on maritime tourism, but also socio-cultural values, including culinary and religious as well as historical sites. Moreover, as a single tourist destination targeting tourists from ASEAN countries as a main captive market, Tanjung Kelayang needs to have excellent infrastructure connectivity.

Unfortunately, Belitung has poor connectivity, particularly international connectivity. Direct international flights to and from Hanandjoeddin Airport (Belitung) have been discontinued over the years. Garuda, the only airline that initially served as a charter flight to connect Belitung with Singapore, decided to stop its operation since its flight contract with the Government of Belitung had ended and was not renewed. Thus, the air entrance to Belitung is accessible only by airlines from Jakarta, Palembang and Bangka. Even though Tanjung Kelayang (Belitung) is located

Table 4: The Profile of Mandalika and Tanjung Kelayang SEZs

	Mandalika	Tanjung Kelayang
Legal Basis	The Government Regulation (PP) No. 52/2014	The Government Regulation (PP) No. 6/2016
Area	1.035,67 Ha	324,4 Ha
The concept of development	Environmentally-friendly tourism development with the development of tourist objects and attractions constantly oriented to the preservation of environmental quality and cultural values in the community	Socially and environmentally responsible development of tourist objects and attractions constantly oriented to cultural preservation
Tourism objects	<ul style="list-style-type: none"> • Maritime tourist attraction with white sandy beaches and exotic panorama • The cultural ritual of Bau Nyale ceremony • Neighboring Bali 	<ul style="list-style-type: none"> • Maritime tourist attraction with white sandy beaches and exotic panorama • Gigantic granite rocks • Adjacent to the surrounding small islands • Located between Indonesia dan other member of ASEAN countries
Projected Employment Creation	58.700 People	23.645 People
Economic value	IDR28.6 trillion	IDR10.3 trillion
Tourist target	2 million tourists per year	59.000 tourists per year

Source: SEZ National Council, 2018, *the Profile of Mandalika and Tanjung Kelayang*

between Indonesia and other ASEAN countries, tourists who want to visit Tanjung Kelayang from those countries must travel to this zone through Jakarta.

The central and regional governments seem to fully understand the connectivity problems that can hinder the development of Tanjung Kelayang TSEZ, hence the extremely serious attention provided by the government to improve the connectivity in Belitung to support Tanjung Kelayang TSEZ by developing various vital infrastructures, including airports, highways and seaports (Table 5).

Unfortunately, the government's progressive efforts to develop infrastructure have not been followed linearly by the Management of Tanjung Kelayang TSEZ. As a result, infrastructure in Tanjung Kelayang TSEZ is still poor developed and inadequate to accelerate the development of the zone. In many part of the zone, dirt or poor asphalted roads with extremely deep potholes remain prominent, not reflecting that they are parts of TSEZ. Several other basic facilities, such as clean water and electricity, are also unavailable.

The problem in the process of land acquisition due to a conflict with local residents and hoteliers who

have been there longer, according to the Management, delays the development of infrastructure required to promote Tanjung Kelayang TSEZ. Up to the present time, PT Belitung Pantai Intan (Belpi) has actually been less successful to optimally develop infrastructure in accordance with its master plan. This is because at some points in the zone there have been local residents and hoteliers who remain owning and controlling the land with a strong legal ownership certificate (SHM-Certificates).

Other causes for the delay in the development of infrastructure might also be attributed to the situation where PT Belpi was selected to become the Management of Tanjung Kelayang TSEZ in 2016. The status of PT Belpi as the Management of Tanjung Kelayang TSEZ is relatively new compared to PT Indonesia Tourism Development Corporation (ITDC) that has been decided to become the Management of Mandalika TSEZ since 2014. Moreover, PT ITDC has better experience than PT Belpi in managing and developing infrastructure within the zone as PT ITDC has also been granted authority to manage Nusa Dua-Bali.

As previously explained, UU No. 39/2009 articles 12 and 13 emphasizes that the time period granted

Table 5: Infrastructure Development Agendas in Mandalika and Tanjung Kelayang

	Mandalika	Tanjung Kelayang
The Government	<ul style="list-style-type: none"> ● Improving the quality of Lombok International Airport by 18.2 km ● Starting to develop Clean Jai Praya Water Treatment Installation to 200 L / sec ● Completing the development of Lembar seaport by 46 km ● Planning to develop Penunjak-Kuta national road to 18.2 km length road ● Initializing the development of Mujur Dam by 21 km ● Constructing Kuta Substation capacity of 150 kV 	<ul style="list-style-type: none"> ● Completing the development of Tanjung Pandan - Tanjung Tinggi national road; ● Increasing/widening HAS Hanandjoeddin Airport - Tanjung Tinggi district roads; ● Developing HAS Hanandjoeddin Airport runway extension from 2,250 to 2,500m; ● Developing tourism port for yacht in Tanjung Kelayang; ● Increasing electricity capacity by 41.5 MW; ● Developing Tanjung Tinggi substation (2 x 30 MVA) and transmission of 70 kV (GI Dukong-GI Tanjung Tinggi); ● Constructing distribution network of Sijuk SPAM (20 L / sec); ● Constructing the Gunung Tajam Reservoir (400 L / sec); ● Increasing Gunung Sadai landfill capacity to 8 ha
The Management Body	<ul style="list-style-type: none"> ● Maintaining and arranging Kuta Beach ● Developing Sea Water Reserve Osmosis (SWRO) ● Maintaining and arranging Lagoon ● Constructing the Mandalika Mosque ● Developing road within the zone 	<ul style="list-style-type: none"> ● Maintaining and arranging White Sandy Beach ● Constructing the zone's boundary fences ● Maintaining and arranging Rocky Peninsula ● Constructing road within the zone
Tenants	<ul style="list-style-type: none"> ● Constructing 5-star hotels and their supporting facilities 	<ul style="list-style-type: none"> ● Constructing beach resort hotel

Source: SEZ National Council, 2018, *Infrastructure Development Plans in Mandalika and Tanjung Kelayang*

by the National Council to the Management to prepare and commence the commercial operation of SEZ is only 3 years. This suggests that PT Belpi as the Management of Tanjung Kelayang TSEZ has only one year left to intensify its efforts in developing infrastructure as an operational prerequisite for this TSEZ to commence its commercial operation. Although the period of preparation can be extended up to 2 years, the National Council has a strong legal basis to terminate the role and responsibility of the considered underperforming Management and replace it with the new one.

It is discovered during the fieldwork that the development of infrastructure in Mandalika TSEZ is slightly one step ahead of that in Tanjung Kelayang TSEZ. However, its availability and quality has not completely met the expectation of the investors. The interviewed investors complained about poor intra-zone connectivity, poor street lighting, insufficient supply of clean water, and unstable supply of

electrical power within the SEZ. Outside the SEZ, they have been dissatisfied with water and land transportation networks, specifically those that connect one tourist object to another, such as the road connecting Kuta to Senggigi Beach.

The coordination among institutions involved in the development of infrastructure is also weak. Ambitious initiative of the local government to renovate and even build several new markets around the roads to Mandalika TSEZ results in heavy traffic problems, particularly in the morning. The local government and PT ITDC have also a separate plan to develop each souvenir market in two different locations within Mandalika SEZ.

Similar to PT Belpi, PT ITDC has also faced a problem where several points in Mandalika TSEZ are still owned by local people with legal ownership certificates, many of which are situated in highly strategic locations, such as along *Jalan Pariwisata*

Kuta – Pujut. This area, directly facing Kuta Beach, has been determined as the core zone I dedicated for the location of 5-star hotels within the master plan of Mandalika TSEZ. The emergence of problem in the land acquisition around this area causes PT ITDC unable to prepare and develop infrastructure to support hospitality industry.

Apart from the aforementioned problems, there has been an indication that the availability of infrastructure is an important factor to attract investors to invest in TSEZs. Tanjung Kelayang TSEZ has been designed to attract dozens of investors with its targeted investment value of IDR10.3 trillion. Due to the inadequate availability of infrastructure, this TSEZ has only been able to attract the commitment of three investors to invest in the zone, namely Sheraton, Sofitel and China Harbor. Of these three committed investors, only Sheraton that has already been innovative and currently entering the initial construction phase with a planned investment value of IDR489 billion.

A better infrastructure provision allows Mandalika TSEZ to be more successful than Tanjung Kelayang TSEZ in attracting investors. This TSEZ has targeted to achieve the investment value of IDR28.6 trillion. Currently, there have been ten investors commit to invest in Mandalika TSEZ, namely Paramount, Pullman, Royal Tulip, Accor Qatar, Grand Aston, Palamarta, Meria, X2, and ClubMed. Of the ten committed investors, Paramount, Pullman, and Royal Tulip have already been innovative and currently in the next stage of initial construction, with a planned investment value of more than IDR1.3 trillion. In addition, in collaboration with Vinci Grand Project (France state owned enterprise), PT ITDC plans to develop a 120 ha Mandalika Street Race Circuit Cluster with a planned investment value of IDR6.7 trillion.

In addition to infrastructure, facilities and incentives are also necessary determinants to stimulate in-

vestors to invest in SEZs. As explained in the previous section, referring to PP No. 96/2015 article 2, Mandalika and Tanjung Kelayang TSEZs offer six types of facilities and incentives to attract investors: taxation, customs, and excise (fiscal field); goods traffic; employment; immigration; land; and business licensing. Unfortunately, in practice, investors have been confronted with various impediments to utilize the facilities and incentives offered.

In regard to the process of issuing business licensing in both Mandalika and the Tanjung Kelayang TSEZs, institutional issues arise, particularly related to the incapacity of the Administrator. As explained in the previous section, the SEZ policy design assumes that the ease of issuing business licensing can be implemented successfully and enjoyed by investors in SEZs should the process of delegating licensing authority from the ministries and technical agencies to the Administrator transpires smoothly. Unfortunately, the capacity of the Administrator in handling various types of licensing procedures initially delegated from the ministries and technical agencies is alarmingly weak, thus the process of licensing requires longer period than their scenario (within 3 hours).

The procedure for processing legal permit to employ foreign workers, according to the interviewed investor, is also not as simple as explained in PP No. 96/2015, specifically articles 34–39. The Administrators in Mandalika and Tanjung Kelayang TSEZs are apparently remarkably careful in issuing this permit for at least two reasons. *First*, the issues of employing foreign workers have currently been notably sensitive as there has been an increasing public opinion that the use of foreign workers shall result in the reduction and elimination of the local employment opportunities. *Second*, the Administrators are traumatic with the incident in Batam a few years ago where there was a horizontal conflict between foreign workers from India and their local counterparts.

Based on the problem explained previously, PP No. 96/2015 should ideally be amended to include current employment issues. For example, PP should specify the types of works that are permitted to employ expatriates and the types of skills that the foreign workers must possess. PP should also control and clarify the initial agreement regarding labor relations between expatriates and their local counterparts. Foreign workers must be encouraged to understand and comply with the Indonesian labor regulations, including the rules and requirements to configure labor union within the TSEZs.

On the fiscal side, there have been various arising problems. *First*, the interviewed investors consider that the process and requirements to enjoy fiscal incentives, such as tax holidays, remain complicated. As explained in the previous section, the investors are only eligible to obtain tax holiday facilities should their business activities have been classified as the core sector in the SEZ production chains with relatively large investment value plan in the range between IDR500 billion and IDR1 trillion. The investment value plan can indeed be lowered to less than IDR500 billion. However, its tax incentives are less attractive to the investors as they can only obtain income tax reduction by maximum 50% of their corporate income tax payable.

Second, the investors who can enjoy fiscal incentives, according to PP No. 96/2015, are those engaged in the business classified as the core sector in the SEZ production chains. Unfortunately, there has been no further clarification, particularly for the tourism sector, about the definition of 'the core sector in the SEZ production chains'. Thus, the interviewed investors assume that the core sector in the TSEZ production chains is only hospitality (hotel) industry. For this reason, non-hotel investors, such as tour and travel and restaurants, are not interested yet to invest in Mandalika and Tanjung Kelayang TSEZs.

Third, the import tax, customs and excise facilities have not been supported by the detailed clarification about measurements and time period for the investors in TSEZ to claim these facilities. The absence of the detailed clarification leads to confusion and discouragement for the investors to maintain their commitment to invest in the TSEZs. Several interviewed investors indeed mention that they are confused about when they can start to enjoy these facilities, either since they have been in the construction phase or when they have already reached the production stage. To attract more investors, the interviewed investors suggest offering these facilities to tourism investors as early as possible, starting in the construction phase, since investors in the hotel industry import capital goods and raw materials in a large amount during the construction phase.

5. Conclusion and Recommendations

TSEZ is an integrated area of tourism designed to explore, develop, and exploit optimum benefits of tourism for the economy. TSEZ is equipped with a special regulatory regime and the provision of infrastructure different from those applied outside the zone. Various facilities and incentives in both fiscal and non-fiscal areas are offered to attract and increase tourism and recreational investments in TSEZ.

However, an investigation into Mandalika and Tanjung Kelayang TSEZs indicates that these two TSEZs have been less successful in attracting and increasing tourism and recreational investments. The values of planned investment in these two TSEZs are far below their targets. The numbers of investor who commit to invest in these two TSEZs are scarce. A small number of committed investors

in their vast land area result in insignificant land uses in the zones.

The Managements are unable to immediately develop these two TSEZs due to a conflict with local residents in the process of land acquisition. Currently, despite the considerable decline in the intensity of the land conflict, there are several points in both Mandalika and Tanjung Kelayang TSEZs owned and controlled by local residents with strong legal ownership certificates. This problem of land acquisition results in the failure of the Management to develop sufficient infrastructure in the zones according to their master plans required to support tourism industry. The absent of sufficient infrastructure reduces the competitiveness of the two TSEZs in attracting investors.

In addition, it is revealed that the policy design to promote these two TSEZs unattractive, unclear, and at odds with the characteristics of the tourism sector. Moreover, the implementing institutions of these two TSEZs have insufficient capacity to implement the policy. This paper recommends various strategic actions to improve the attractiveness of Mandalika and Tanjung Kelayang TSEZs.

First, the central and local governments have to intervene in resolving the conflicts in the land acquisition. Alternatively, the Managements in coordination with the Administrators, the Zone Councils, and the National Council adjust the master plans in accordance with the progress in the land acquisition. This adjusted master plans has to be shared to local residents owning and controlling the land in several spots around the zones. By sharing the adjusted master plans, local residents shall have a better knowledge about the TSEZs, and this shall in turn encourage local residents to establish businesses to complement the businesses in the zones, such as home stays or restaurants. Strong coordination among heads of subdistricts around the zones, the Administrators, and the Managements are re-

quired, particularly in issuing land use, building construction, and business permits for local residents around the zones.

Second, the Managements have to be responsible to develop clear and measurable yearly targets regarding the progress in the development and provision of infrastructure. Targets prepared by the Managements have to be utilized as the basis for the National Council and the Zone Council to conduct monitoring and evaluation. The results of monitoring and evaluation have to be utilized as indicators of the Managements' performance. Should the results of monitoring and evaluation conclude that the Managements have poor performances, the National Council, based on UU No. 39/2009 article 13, must immediately take over the responsibilities of the Managements by implementing its own policies to develop and maintain infrastructure in cooperation and coordination with the central and local governments and the private sector.

Third, coordination between the Managements and the Central and the Regional governments should be strengthened to obtain multi benefits of the infrastructure development. Strong coordination in the infrastructure development shall generate beneficial impacts on enhancing access to the zone and connectivity between the zone and the rest of the regional economies.

Fourth, the Administrator should improve their institutional capacity in issuing business licenses. As explained previously, the completion of business licenses process have not transpired in accordance with the targeted time due to poor capacity and professionalism of the Administrator in handling various types of licensing procedures initially delegated from the ministries and technical agencies.

Fifth, PP No. 96/ 2015, specifically articles 34–39, regarding legal permit to employ foreign workers, needs to be complemented by clarification related to the types of works that expatriates are permitted

to involve and the types of skills that they must possess. PP should also control and monitor the initial agreement regarding labor relations between expatriates and their local counterparts. Expatriates must be required to understand and comply with the Indonesian labor regulations, including the rules and requirements to configure labor union within the TSEZs.

Sixth, the fiscal incentive instruments need to be reformed to be more attractive, clearer and in accordance with the character of tourism and hospitality industries. For example, it is recommended that PP No. 95/2015 is supported by the detailed clarification on the terminology of 'the core sector in the TSEZ for tourism production chains. The clarification of this terminology is notably important as a guideline for determining which companies and business players in the tourism industries are eligible to enjoy the fiscal incentives in the TSEZs.

In addition, the import tax, customs and excise facilities have to be complemented by the explication about measurements and time period for the investors to claim these facilities. It is recommended that these facilities can be enjoyed by the tourism investors in the TSEZs as early as possible, starting in the construction phase.

Seventh, the Managements of the two SEZs have to be encouraged to collaborate, exchange experiences and carry out joint promotions. The collaboration can also be carried out by building co-branding and co-marketing. The collaboration is relevant as both Mandalika and the Tanjung Kelayang TSEZs promote similar tourist objects, namely maritime tourism.

Eighth, Mandalika and the Tanjung Kelayang TSEZs should be connected with tourism activities outside the regions. There should be initiatives to develop a beneficial mutual relationship between the two SEZs and tourism villages, craft center, and tourist attractions. By establishing mutual relation-

ship, the two TSEZs shall play a significant role and generate various beneficial impacts on the regional economy of NTB and Belitung.

As noted previously, the development of TSEZs is one of the Indonesian Government's strategic policy. There has been a strong indication that the government shall continue to develop new TSEZs. Therefore, intensive studies on TSEZs are importantly required to enrich and contribute to a better understanding of the development of TSEZs. As this study is only limited to focus mainly on the governance of TSEZs, future studies are encouraged to deal with various important issues, including the impact of the development of TSEZs on the local economy, labor creation, and the development of SMEs.

References

- [1] Agarkova, E., 2008, October. Special Economic Zones and the Future of Tourism on Baikal. *ICWA Letters EA-4*. Institute of Current World Affairs. Retrieved from <http://www.icwa.org/wp-content/uploads/2015/09/EA-4.pdf>.
- [2] ASEAN Secretariat, 2017. *ASEAN Guidelines for Special Economic Zones (SEZs) Development and Collaboration*. Jakarta. Retrieved from <https://asean.org/wp-content/uploads/2016/08/ASEAN-Guidelines-on-SEZ-Development.pdf>.
- [3] Cieřlik, A. and Ryan, M., 2005. Location Determinants of Japanese Multinationals in Poland: Do Special Economic Zones Really Matter for Investment Decisions?. *Journal of Economic Integration*, 20(3), pp.475-496.
- [4] Brautigam, D. and Xiaoyang, T., 2011. China's Investment in Special Economic Zones in Africa'. In T. Farole and G. Akinci (eds), *Special Economic Zones: Progress, Emerging Challenges, and Future Directions [Directions in Development ; trade]*, pp. 69-100. World Bank, Washington, DC.
- [5] CIIP, 2017. *Special Economic Zones an Operational Review of Their Impact*. Competitive Industries and Innovation Program. World Bank, Washington DC. Retrieved from <http://documents.worldbank.org/curated/en/316931512640011812/Special-economic-zones-an-operational-review-of-their-impacts>.
- [6] Cortés-Jiménez, I. and Artís, M., 2006. The role of the tourism sector in economic development. Lessons from the Spanish experience. *WP E-Eco06/158*. Documents de

- treball (Universitat de Barcelona. Facultat d'Economia i Empresa. Espai de Recerca en Economia). Retrieved from <http://diposit.ub.edu/dspace/handle/2445/12037>.
- [7] Creaco, S., and Querini, G., 2003. The Role of Tourism in Sustainable Economic Development. *Paper presented at the 43rd Congress of the European Regional Science Association*, Jyvaskyla, Finland, August 27-30, 2003.
- [8] Farole, T., 2011. *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience*. World Bank, Washington DC. Retrieved from <http://documents.worldbank.org/curated/en/996871468008466349/Special-economic-zones-in-Africa-comparing-performance-and-learning-from-global-experience>.
- [9] Farole, T. and Sharp, M., 2017. Spatial industrial policy, special economic zones and cities in South Africa. *Unpublished manuscript*. Washington: World Bank.
- [10] Ge, W., 1999. Special economic zones and the opening of the Chinese economy: Some lessons for economic liberalization. *World Development*, 27(7), pp.1267-1285. doi: [https://doi.org/10.1016/S0305-750X\(99\)00056-X](https://doi.org/10.1016/S0305-750X(99)00056-X).
- [11] Hamada, K., 1974. An economic analysis of the duty-free zone. *Journal of International Economics*, 4(3), pp.225-241. doi: [https://doi.org/10.1016/0022-1996\(74\)90044-0](https://doi.org/10.1016/0022-1996(74)90044-0).
- [12] Herlevi, A. A., 2016. *What's So Special about Special Economic Zones? China's National and Provincial-Level Development Zones*. Department of Politics at the University of Virginia, Charlottesville
- [13] Huang, Y., 2012. How did China Take Off?. *Journal of Economic Perspectives*, 26(4), pp. 147-162. doi: 10.1257/jep.26.4.147.
- [14] Ishida, M., 2009. Special Economic Zones and Economic Corridors. In A. Kuchiki & S. Uchikawa (eds.), *Research on Development Strategies for CLMV Countries. ERIA Research Project Report 2008-5*, pp. 33-52. ERIA, Jakarta.
- [15] Keputusan Presiden Republik Indonesia [Presidential Decree] No. 46/2014, 2014a. *Kawasan Ekonomi Khusus Provinsi Nusa Tenggara Barat [Special Economic Zone in Nusa Tenggara Barat]*.
- [16] Keputusan Bupati Lombok Tengah [The Decree of Central Lombok Regent] No. 512/2014, 2014b. *Penetapan Badan Penanaman Modal dan Pelayanan Perizinan Terpadu Kabupaten Lombok Tengah sebagai Administrator KEK Mandalika di Kabupaten Lombok Tengah [Decision of Central Lombok Regent on Board of Investment and One Stop Service Coordinator as the Administrator of Mandalika TSEZ in Central Lombok District]*.
- [17] Keputusan Bupati Belitung [The Decree of Belitung Regent] No. 188.45/191/KEP/II/2016, 2016. *Badan Usaha Pembangunan dan Pengelolaan Kawasan Ekonomi Khusus Tanjung Kelayang [Tanjung Kelayang Development and Management Body]*.
- [18] Komite Percepatan Penyediaan Infrastruktur Prioritas [The Committee for Acceleration of Priority Infrastructure Delivery], 2017. *Laporan KPPIP Semester 2 Juli-Desember 2017 [KPPIP Report for the 2nd Semester July-December 2017]*. KPPIP, Jakarta
- [19] Kuzmenko, O.A., Pelkova, S.V., Lukianenko, O.V. and Fomichev, I.Y., 2018. Comparative Analysis of Taxation for Special Economic Zones in Russia and APEC Economies. *European Research Studies Journal*, 21(1), pp.219-242. eoi: 10.11214/thalassinos.21.05.022.
- [20] Maslikhina, V.Y., 2016. Special economic zones in Russia: Results evaluation and development prospects. *International Journal of Economics and Financial Issues*, 6(1S), pp.275-279.
- [21] Newman, C. and Page, J.M., 2017. Industrial clusters: The case for special economic zones in Africa. *WIDER Working Paper 2017/15*. United Nations University World Institute for Development Economics Research. Helsinki: UNU-WIDER. Retrieved from <https://www.wider.unu.edu/publication/industrial-clusters-1>.
- [22] Nyakabawo, W., 2014. The geographic designation of special economic zones. *TIPS Working Paper. Trade & Industrial Policy Strategies (TIPS)*. Retrieved from <https://www.tips.org.za/research-archive/trade-and-industry/item/2830-the-geographic-designation-of-special-economic-zones>.
- [23] OECD, 2017. *Tracking Special Economic Zones in the Western Balkans: Objectives, Features and Key Challenges*. Organisation for Economic Co-operation and Development. Retrieved from http://www.oecd.org/south-east-europe/SEZ_WB_2017.pdf.
- [24] Pakdeenurit, P., Suthikarnnarunai, N., and Rattanawong, W., 2014. Special Economic Zone: Facts, Roles, and Opportunities of Investment. *Proceedings of The International MultiConference of Engineers and Computer Scientists 2014 Vol II, IMECS 2014, March 12 - 14, 2014, Hong Kong*, pp.1047-1051.
- [25] Pakdeenurit, P., Suthikarnnarunai, N., and Rattanawong, W., 2017. Location and key success factors of special economic zone in Thailand. *Marketing and Branding Research*, 4(2), pp.169-178. doi: 10.19237/MBR.2017.02.05.
- [26] Peraturan Pemerintah Republik Indonesia [Government Regulation of the Republic of Indonesia] No. 2/2011, 2011. *Penyelenggaraan Kawasan Ekonomi Khusus [The Management of SEZs]*.
- [27] Peraturan Pemerintah Republik Indonesia [Government Regulation of the Republic of Indonesia] No. 100/ 2012, 2012. *Perubahan atas Peraturan Pemerintah No. 2 Tahun 2011 tentang Penyelenggaraan Kawasan Ekonomi Khusus [Amendment to Government Regulation of the Republic of Indonesia No 2/2011 on the Management of SEZs]*.
- [28] Peraturan Pemerintah Republik Indonesia [Government

- Regulation of the Republic of Indonesia] No. 52/2014, 2014. *Kawasan Ekonomi Khusus Mandalika [Mandalika SEZ]*.
- [29] Peraturan Pemerintah Republik Indonesia [Government Regulation of the Republic of Indonesia] No. 96/2015, 2015. *Fasilitas dan Kemudahan di Kawasan Ekonomi Khusus [Facilities and Incentives in SEZs]*.
- [30] Peraturan Pemerintah Republik Indonesia [Government Regulation of the Republic of Indonesia] No. 6/2016, 2016. *Kawasan Ekonomi Khusus Tanjung Kelayang [Tanjung Kelayang SEZ]*.
- [31] Peraturan Presiden Republik Indonesia [Presidential Decree of the Republic of Indonesia No. 91/2017, 2017. *Percepatan Pelaksanaan Berusaha [Acceleration of the Business Practices]*.
- [32] Putra, M.U.M., 2015. Keuntungan Aglomerasi Kawasan Ekonomi Khusus (KEK) Sei Mangkei Terhadap Peningkatan Efisiensi Industri Wilayah Sekitarnya [the Beneficial Impacts of Sei Mangkei SEZ on the Improvement of Efficiencies of Surrounding Industries]. *HUMAN FALAH: Jurnal Ekonomi dan Bisnis Islam*, 2(1), pp.136-151.
- [33] Ratman, D.R., 2016. *Pembangunan Destinasi Pariwisata Prioritas 2016-2019 [the Development of Priority Tourist Destination 2016-2019]* [PowerPoint Slides]. Retrieved from [http://perpustakaan.bappenas.go.id/lontar/file?file=digital/166694-\[_Konten_\]-Konten%20D1812.pdf](http://perpustakaan.bappenas.go.id/lontar/file?file=digital/166694-[_Konten_]-Konten%20D1812.pdf).
- [34] SEZ National Council [Dewan Nasional KEK], 2018. *Kelembagaan KEK [SEZ Organizational Structure]*. Dewan Nasional Kawasan Ekonomi Khusus. Retrieved from <http://kek.go.id/kelembagaan>.
- [35] Sobirov, B., 2018. The concept of the tourist economic zone. Case of Uzbekistan. *World Scientific News*, 98, pp.34-45.
- [36] Tantri, M.L., 2014. Promises and paradoxes of SEZs expansion in India. *Working Paper 331*. Institute for Social and Economic Change. http://www.isec.ac.in/WP%20331%20-%20Malini%20L%20T_9.pdf.
- [37] Tao, Y., Yuan, Y., & Li, M., 2016. Chinese Special Economic Zones: Lessons for Africa. *African Economic Brief*, 7(6). African Development Bank, Abidjan. Retrieved from https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Africa_Economic_Brief_-_Chinese_Special_Economic_Zones-Lessons_for_Africa.pdf.
- [38] The Economist, 2015, April 4. *Not so Special (Special Economic Zones)*. Retrieved from <https://www.economist.com/leaders/2015/04/04/not-so-special>.
- [39] TRA, 2014. *Guidelines for Development of Tourism Area Plans*. Tourism Regulatory Authority. Retrieved from <https://www.tourismauthority.go.ke/index.php/resource-centre/downloads/category/5-guidelines-for-tourism-area-plans>.
- [40] UNIDO, 2015. Economic Zones in the ASEAN: Industrial Parks, Special Economic Zones, Eco Industrial Parks, Innovation Districts as Strategies for Industrial Competitiveness. United Nations Industrial Development Organization Country Office in Viet Nam. Retrieved from https://www.unido.org/sites/default/files/2015-08/UCO_Viet_Nam_Study_FINAL_0.pdf.
- [41] Undang-Undang Republik Indonesia [The Law of the Republic of Indonesia] No. 39/2004, 2004. *Kawasan Ekonomi Khusus [Special Economic Zone]*.
- [42] World Bank, 2008. Special economic zone : performance, lessons learned, and implication for zone development (English). *Foreign Investment Advisory Service (FIAS) occasional paper*. World Bank, Washington, DC. Retrieved from <http://documents.worldbank.org/curated/en/343901468330977533/Special-economic-zone-performance-lessons-learned-and-implication-for-zone-development>.
- [43] Xu, C., 2011. The fundamental institutions of China's reforms and development. *Journal of Economic Literature*, 49(4), pp.1076-1151. doi: 10.1257/jel.49.4.1076.
- [44] Zeng, D.Z., 2010. Special Economic Zones: Lessons from the Global Experience. *PEDL Synthesis Paper Series No. 1*. Private Enterprise Development in Low-Income Countries. Retrieved from https://assets.publishing.service.gov.uk/media/586f9727e5274a130700012d/PEDL_Synthesis_Paper_Piece_No_1.pdf.
- [45] Zeng, D.Z., 2011a. How Do Special Economic Zones and Industrial Clusters Drive China's Rapid Development?. *Policy Research Working Paper No. 5583*. World Bank, Washington DC. Retrieved from <http://documents.worldbank.org/curated/en/310891468018256346/How-do-special-economic-zones-and-industrial-clusters-drive-Chinas-rapid-development>.
- [46] Zeng, D.Z., 2012. China's Special Economic Zones and Industrial Clusters: Success and Challenges. *Working Paper WP13DZ1*. Lincoln Institute of Land Policy. Retrieved from https://www.lincolninst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf.