

THE INFLUENCE OF STATE AND MARKET ON THE DEVELOPMENT OF INDUSTRIAL ZONE IN MALAYSIA AND INDONESIA

Muchid Albintani

University of Riau, Indonesia

PhD candidate at National University of Malaysia

mbintani@unri.ac.id

—Abstract —

The objective of the paper is to compare the influence of state and market on the existence of industrial zone in Malaysia and Indonesia. Specifically, the research, (i) identify the roles of state and market in the administration and governance of industrial zone in Pulau Pinang also known as Penang, Malaysia and Pulau Batam, Indonesia; and, (ii) assess how state and market influence the implementation of rules and regulation in those areas. Based on eclectically approach, the theory of political economy and political law has been merged as a theoretical framework. Data were collected from various relevance documents and analysed descriptively. The study revealed that in Pulau Batam which market was based on capitalism, controlled the administrator and groups of people affiliated with the state. As a result, the existence of Pulau Batam as a Free Trade Zone was unclear by ad-hoc decision. In addition, the implementation of rules and regulations became uncertain. Compared to Penang, the roles of state and market on the administration and governing of the Free Trade Zone was very transparent. Reformation of political system of rule by amending Constitution (UUD 1945) caused conflict and created dualism in decision making between the local government and the governing Otorita Batam. In comparison, even though there was no constitutional reform in Malaysia, the governance of industrial zones in Penang was very clear and according to the enacted law.

Key Words: *State Power, Market, Industrial Zone,*

JEL Classification: H11

1. INTRODUCTION

To understand the relationship between the development of state power (authoritarian) and markets (capital) of the industrialization process, this paper discusses the governance and administration of industrial free trade zone in Pulau Batam, Indonesia and Penang, Malaysia. The significance of this study are viewed from three main points, i.e. (i) the two regions are in an area of rapid industrial growth over the last thirty years; (ii) both areas bring economic benefits to the region under the framework of state government servicing the interests of the global market (capitalism); and (iii) in the context of the system of government, both areas are practising the authoritarian style of political system, although there are reforms in the case of Indonesia.

Previous study on the industrial park in the area has been done by Kelly (2004) who focused on the relationship between industrialization and civil society in Pulau Batam and Penang. In addition, Hadi (2005) studied the impact of state industrial policy on equity capital, where he compared the impact of industrialization policy in attracting Japanese capital under the leadership of President Soeharto, Indonesia and Prime Minister Mahathir, Malaysia.

Based on the idea from these two studies, this paper focuses on the existence of industrial area in Pulau Batam, Indonesia and Penang, Malaysia in the context of the Indonesian government and political system that has undergone Reformation (transition to democratic transformation) compared to Malaysian government and political system which is still relatively 'authoritarian'. The imperatives question raised are: (i) is it true that reformation can bring change to the political system of democratic government? and, (ii) will authoritarian political system be an obstacle to the law enforcement, or will it turn as an important mechanism for the process of democracy itself?

Based on these questions, this paper aims to: (i) identify the role of the state and the market (capital) on the development of an industrial area in Indonesia and Malaysia; and (ii) assess the influence of the state and the market towards the administration authorities in both areas.

2. INDUSTRIAL ZONE IN PULAU BATAM (INDONESIA) AND PENANG (MALAYSIA)

As developing countries, Indonesia and Malaysia at the end of 1970's had the same industrial strategy, i.e. export orientations (Faqih, 2004 and Rostam, 2008). New strategy adopted will be based on the need of developed countries and in line with the new international labour requirements. At that time, capitalist based world economy which is expanding also affecting these two countries.

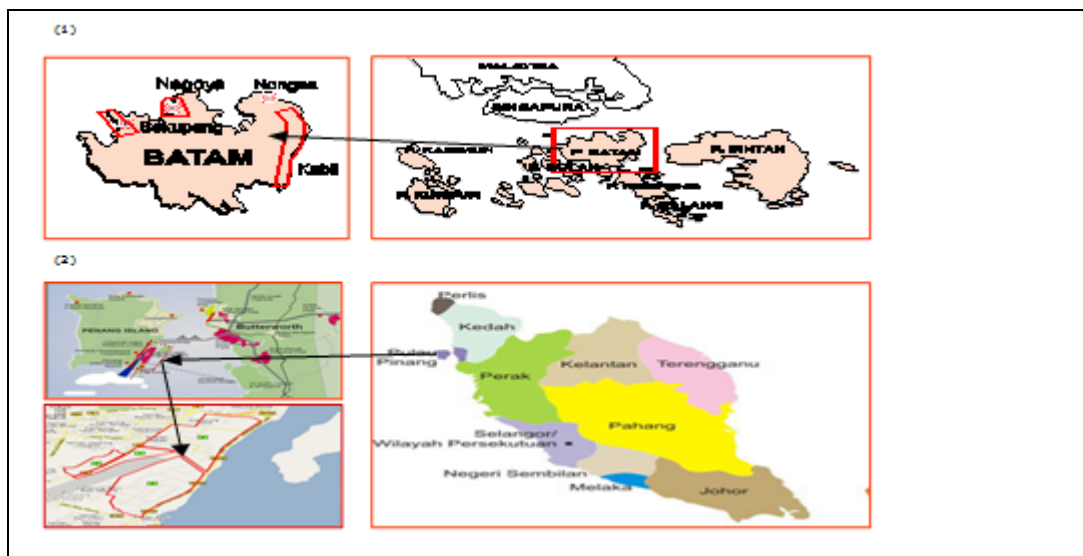
The industrial area of Batam in Indonesia was established in 1970's and managed by Batam Authority (*Otorita Batam-OB*). In the beginning, the purpose of OB establishment was to represent the roles of the central government following the Singapore model of practise. Therefore OB is directly under the President Office. Under this jurisdiction, various policy guidelines and orders have been issued and event after the reformation, the President Office is still issuing new order and guidelines.

After the reformation, governing rules have been enacted namely Act 53 of 1999 (amended by Act 13 of 2000). According to this Act, Pulau Batam is autonomous region which owned its legislative authority. This situation leads to the dualism of power between the OB which act on behalf of the Central Government and the local Government of Batam. Both parties claim their rights to manage Pulau Batam.

In the case of Malaysia, the establishment of industrial estates in Penang at the end of 1960's as export-oriented strategy, is managed by the local government. In 1968, a law was introduced to promote investment in Malaysia (Shari and Woon, 1984). Under this law, fiscal and financial incentives for investors are clearly defined. This law is clearly different from what have been practised in governing the Pulau Batam. Obviously, there is no duality of power occurred in governing the Penang Free Trade Zone.

Another important aspect of differences in Penang Free Trade Zone as compared to Pulau Batam is the separation of area with the residential areas. Within this areas, only commercial and manufacturing premises were allowed. Figure-1 shows the map of industrial zone in Pulau Batam and Penang.

Figure-1: Industrial Zone in Pulau Batam (1) and Penang (2)



Sources: google.com and Bahrum 2008

3. METHODOLOGY

The design of this study is purely qualitative. The fieldworks took place in Pulau Batam, Indonesia and Penang, Malaysia. Both places, have industrial free trade zone which was set-up based on different industrial policy. As such, the scope of this paper was limited to these industrial areas. The findings cannot be considered as representative of other industrial areas elsewhere. Data were collected through published documents and in-depth interviews. The analysis of the data was based on descriptive approach.

4. DISCUSSION: INDUSTRIAL ZONE BETWEEN STATE AND MARKET

The state and markets in Indonesia and Malaysia have different dimensions. However, the scope of the political system is equally authoritative. Two critical questions raised. First, whether dominance of the state in the determination of policy is still exist? And, secondly, who are the dominance actors or groups?

Political economy and political law can be used to answer the above questions. Relying on the policy-making mechanism in the era of the New Order in the political economy perspective is more state-centred, characterized by the dominance of the state (Perdana, 2001). Orientation towards the domination of the state or the market is a rational choice of the government. Option to adopt a market-oriented policies for national interests and international interests, were not based on ideological decision such as Marxist-instrumentalist, where the state has fully become an instrument for the owners of capital to serve the interests and maintain its hegemony (Perdana, 2001; Faqih, 2004). The similar argument is also supported by Prajoso et al. (2006); Budiman (2000); and Irwan (1999).

For example, Value Added Tax and Luxury Goods Sales Tax in Pulau Batam industrial zone has many features which was agreed according to the Memorandum of Understanding (MOU) between the Indonesian Government and the International Monetary Fund (IMF). However, the real practised is different from what has been transpired in the MOU. As a results, massive conflict arises during the implementation in Pulau Batam.

In comparison, Penang practised the political system of government characterized by the term 'democratic state' or 'bureaucratic authoritarianism' (Kelly 2004: 125). The regulation of industrial estate development are very clear without redundancy between the policy of state and central government.

According to Hadi (2005: 57), the difference in the authoritarian political system of Indonesia and Malaysia is that, the government did not act as a corporation, but function as a ruling party coalition, representing the interest of some political party. Although, there was a claim that Malaysian government is practising authoritarian system, there is no obvious consensus on this matter (Hadi, 2005). The claim was based on the political tussles between Mahathir and Anwar (the former Prime Minister and Deputy Prime Minister) during 1998-1999. Hadi (2005) further argued that there are two main reasons why the authoritarian nature inherent in Malaysian politics. First, the founders of the regime since 1969 has laid a policy for a political system that protect indigenious, particularly Malays through an affiliated party namely United Malays National Organisation (UMNO). Second, the use of Internal Security Act (ISA) if necessary as a prevention mechanism to government for state security.

However, in term of political approach to the law, there are similarities between Indonesia and Malaysia. This is in tandem to Mahfud (2009), who highlighted democratic political system promote positive law that pro-people while the authoritarian political system create a repressive law. On the other hand, the phenomenon of the presence of ISA and the industrial zone policy in the Malaysian context shows some contradiction (Mahfud, 2009). The similar phenomenon appeared in Indonesia through the presence of industrial estate in Batam. Based on this argument, although Batam and Penang showed two different situations, the practices of government administration are the same namely authoritarian. In Malaysia, there are obvious laws exist which is pro-democracy. However, in Indonesia, the law is authoritarian in nature, event after the democracy reform. Hence, it can be understood that the policy in both countries contained the authoritarian regime characteristics.

4.1. Political System and Political Industrialization

From the previous discussion, whether the political system is democratic or authoritarian, it does not hamper the industrialization process. The relationship between state and market towards industrial policy is not inversely proportioned. Meaning, the policy of industrialization is not dependent on political system, but also based on the interests of individual or collaborated groups.

For instance, the management in Pulau Batam prefer to use centralized political (authoritarian) approach rather than following the Indonesian government policy on market reforms and control. This lead to ambiguity of status between the limited industrial zones or free trade area in Pulau Batam. Another example, is the implementation of Value Added Tax and Sales Tax on Luxury Goods enactment in Pulau Batam was based on MOU between the Government of Indonesia and the IMF, reflecting the market intervention, not the existing rules and regulation.

In the case of Penang, even after the opposition took over the state, the regulation of the development of the industrial park are continuously enforced based on the political system characterised by democratic state or Bureaucratic Authoritarianism. This is due to the development regulation concerning the industrial park, is very transparent according to Malaysian Federal Constitution (Kelly, 2004). Based on that argument, government reform does not take place in

Malaysia. Furthermore, there is a clear regulation between central and local government. However, it happened in Indonesian state and market through 1945 Constitution reforms.

4.2. State and Market: A Reflection Policies

The relationships between state and market will reflect industrialization policy. However, it is not clearly identified. Alternatively, a legal measures can be used to access the phenomena. As an outcome, it is actually a representation of struggle between law and political power. It can be explained that the product of law is part of the collaboration between actors which lead to economic problems. Therefore, the management issues in Pulau Batam and Penang are part of the tussle by the actors or ruling class in the political institutions or the market. It can be seen that the political approach in the context of law and institution are almost similar between Indonesia and Malaysia. Constitutional reformed does not guarantee democratic political system. On the other hand, authoritarian regime, does not necessarily mean a repressive law.

In reality, the roles of Otorita Batam in Batam is not the same as the local government, which manage the industrial park in Penang. For example, the existence of ISA and the development of the industrial zone is something specific to Malaysia. On the contrary, in Indonesia, the presence of the industrial area and the Otorita Batam shows the opposite.

Under these circumstances, the possible legal issues on both areas are equally the same. In Pulau Batam, the reform policy by the central and local government caused overlapping in law and regulation enforcement. This indicate that the political system of government either democratic or authoritarian does not influence the implementation process. While, in Penang there is an evidence that authoritarian and industrial policy are intertwined. From the opposite angle, industrialization is not a linear relationship with the democratization. Democratization does not necessarily bring positive outcome to the regulation and legal reforms, and authoritarian political system may give certainty on the implementation of regulations that support industrialization.

5. CONCLUSION

Based on the above discussion, this paper concluded that:

- the difference between democratic and authoritarian political systems in the industrial areas on both Pulau Batam and Penang does not influence industrialization policy;
- the relationship between authoritarian political systems and industrialization, is not always linear. Industrialization is not always in line with democratization. Democratization, does not necessarily bring positive outcome to the regulation and legal reform; and
- the authoritarian political system may bring certainty to support the development of industrialization. Both contributed to the hegemony of the state and the market as an impact on the development of management institutions for industrial zone in Pulau Batam and Penang.

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