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## Governance of the Development of the Special Economic Zone (SEZ) Galang Batang, Riau Islands

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### **ABSTRACT**

The Galang Batang Special Economic Zone (SEZ) is a strategic initiative by the Indonesian government aimed at enhancing economic growth through mineral downstream and logistics. This study investigates the governance of the Galang Batang SEZ, identifying key challenges such as ineffective supervision, inefficient licensing processes, and limited technological integration. The research employs a qualitative approach, utilizing in-depth interviews, document analysis, and direct observations to evaluate existing policies and the role of the Directorate General of Customs and Excise (DJBC) as a trade facilitator. Findings indicate that despite its advantageous geographical location, the SEZ has not fully realized its potential due to governance issues. The DJBC has positively impacted customs procedures but requires improved cross-sector coordination. The study concludes that enhanced governance, technological infrastructure, and policy synergies are critical for maximizing the SEZ's potential as a mineral processing hub. Recommendations include optimizing DJBC's role, developing human resource capacities, and fostering private-sector collaboration to ensure sustainable economic growth. This research fills existing gaps in the literature regarding the specific governance challenges faced by the Galang Batang SEZ and its integration into global value chains, providing insights for policymakers to enhance regional economic development.

**Kata kunci:** special economic zone, governance, galang batang, djbc, global value chain.

### **INTRODUCTION**

The Galang Batang Special Economic Zone (SEZ) in the Riau Islands Province is one of the strategic initiatives of the Indonesian government aimed at promoting economic growth through mineral downstream and logistics development. Despite having significant potential, this SEZ has not yet achieved the expected level of progress due to various challenges in governance and policy implementation. According to Government Regulation Number 40 of 2021, SEZs are regulated within a framework that includes aspects of location, business activities, and management. (PP/40/2021 et al., 2021). The strategic location of Galang Batang, which is close to the Free Trade Zone in Batam and the shipping route of the Malacca Strait, should provide a competitive advantage in attracting investment. However, challenges such as inefficient licensing processes and a lack of technological integration remain major obstacles. (Desy Setyowati, 2022; Pipit Ika Ramadhani, 2021).

Globally, SEZs have been instrumental in driving economic growth, particularly in developing countries. However, their success largely depends on effective governance, which includes transparent policies, efficient regulatory frameworks, and strong institutional support. Many SEZs face challenges such as bureaucratic inefficiencies, lack of infrastructure, and insufficient integration into global value chains (GVCs). These issues are not unique to Indonesia but are prevalent in SEZs worldwide, as highlighted by studies such as those by Farole (2011) and Zeng (2022). In the context of Indonesia, the

Galang Batang SEZ exemplifies these challenges, making it a critical case study for understanding how governance structures can be improved to enhance SEZ performance.

This research was chosen to explore in-depth the governance of the development of the Galang Batang SEZ, focusing on the role of the Directorate General of Customs and Excise (DJBC) as a trade facilitator. This is important because the effectiveness of policies and regulations significantly influences the success of the SEZ in achieving integration into the Global Value Chain (GVC) and its impact on the local economy. Additionally, evaluating the impact of the COVID-19 pandemic on the Galang Batang SEZ is also a primary concern, given the changing dynamics of investment and operations faced during the global crisis (Muallif, 2024). By addressing this research gap, it is hoped that strategic recommendations can be provided to enhance the competitiveness and contribution of the Galang Batang SEZ to the national economy.

This research is grounded in Governance Theory, which emphasizes the importance of collaboration among multiple stakeholders, including government agencies, private sector actors, and local communities, to achieve sustainable development goals. Governance theory provides a lens to analyze how policies, regulations, and institutional frameworks can be optimized to address the challenges faced by the Galang Batang SEZ. Additionally, the study incorporates concepts from Global Value Chain (GVC) analysis to understand how the SEZ can better integrate into international trade networks, as well as Customs Management Theory to explore the role of the Directorate General of Customs and Excise (DJBC) in facilitating trade and industrial development.

This research contributes to the existing literature by providing a comprehensive analysis of governance challenges in the context of a specific SEZ in Indonesia. While previous studies have explored SEZs in general, few have focused on the role of customs and excise authorities in facilitating trade and industrial development. By integrating governance theory with GVC analysis and customs management, this study offers a unique perspective on how institutional frameworks can be optimized to enhance SEZ performance. Furthermore, the inclusion of the COVID-19 pandemic as a variable adds a contemporary dimension to the research, addressing how global crises impact SEZ operations and investment flows.

The urgency of this research lies in its potential to inform policy decisions and strategic interventions that can enhance the competitiveness of the Galang Batang SEZ. As Indonesia seeks to position itself as a key player in the global economy, the success of its SEZs is critical. By identifying and addressing governance challenges, this study aims to provide actionable recommendations that can improve the SEZ's contribution to the national economy. Additionally, the findings can serve as a reference for other SEZs in Indonesia and beyond, offering insights into best practices for governance and policy implementation.

The subsequent chapters of this study will build upon the theoretical framework outlined above to analyze empirical data and provide insights into policy recommendations. Chapter 2 will review relevant literature on SEZs, governance theory, and GVC analysis. Chapter 3 will detail the research methodology, including data collection and analysis techniques. Chapter 4 will present the findings, focusing on governance challenges, the role of the DJBC, and the impact of the COVID-19 pandemic. Finally, Chapter 5 will conclude with strategic recommendations for improving the governance of the Galang Batang SEZ.

This theoretical framework provides a foundation for understanding the governance dynamics of the Galang Batang Special Economic Zone. By integrating concepts from governance theory, SEZ

literature, GVC analysis, and customs management, this study aims to identify key challenges and opportunities for enhancing the effectiveness of governance in promoting economic growth within this strategic zone. The subsequent chapters will build upon this framework to analyze empirical data and provide insights into policy recommendations for improving the governance of the Galang Batang SEZ.

In the context of the Galang Batang SEZ, the role of DJBC as a trade facilitator and industrial assistance can be implemented through various strategic steps, including IT Infrastructure Improvement, Training and Certification Programs, Cooperation with Educational Institutions, and Policy Evaluation and Adjustment. By applying these theories and concepts, DJBC can play an important role in facilitating trade and supporting industrial development in the Galang Batang SEZ. The effective role of the DJBC will help create a conducive environment for industrial investment and operations, which will ultimately contribute to sustainable economic growth in the region.

## **METHOD**

### **Type of Research**

This study employs a qualitative research approach to explore the governance of the Galang Batang Special Economic Zone (SEZ) and the role of the Directorate General of Customs and Excise (DJBC) as a trade facilitator. The qualitative methodology is chosen to gain in-depth insights into the complexities of governance, policy implementation, and operational challenges within the SEZ. Qualitative research methods, as quoted from Creswell (in Raco, 2010), are an approach or search to explore and understand a central phenomenon that requires researchers to interview informants or research participants by asking general questions rather broadly. Information extracted from participants or informants, which is usually in the form of words or text, is then collected for later analysis.

The research utilizes a descriptive-analytical design, which allows for a comprehensive examination of the current state of governance in the Galang Batang SEZ. This design facilitates an understanding of the relationships between various stakeholders, including government agencies, private sector actors, and local communities. This approach is intended to obtain more comprehensive, complete, representative, and thorough data and information related to realities in the field and their impacts.

### **Source of Information**

The source of information in this study uses two types of data, namely primary data and secondary data. Primary data is information obtained directly from informants, while secondary data is information from various documents or artifacts. In qualitative research methods, the sample does not emphasize the number or representativeness, but the quality of information, credibility, and wealth of information from informants or participants. (Raco, 2010). That is why, this study uses a purposive method that is adjusted to the purpose and purpose of the research.

The informants in this study are several employees who are recorded as carrying out duties at the Customs and Excise Service Office of Customs and Excise Type Intermediate Type B Tanjungpinang. The employees in question are employees of the Customs and Excise Service Office of Customs and Excise Intermediate Type B Tanjungpinang, especially employees who are and have been assigned to the Galang Batang Special Economic Zone (SEZ), business entities in the Galang Batang SEZ and the community.

### **Data Collection Procedure**

In collecting data from primary and secondary data sources, the researcher took data from the Customs and Excise Service Office of Customs and Excise Type Intermediate Type Customs B Tanjungpinang and Galang Batang SEZ and its surroundings. This location was chosen because there is a working relationship between the Customs and Excise Service Office and the Galang Batang SEZ. In addition, several employees have or are currently serving in the SEZ, as well as business entities and the surrounding community.

The selection of informants using the Purposive sampling method, which is adjusted to the purpose and objectives of the research, focuses on the quality of information, credibility, and information richness of the informants. The informant himself is an Employee of the Customs and Excise Service Office of Customs and Excise Type B Tanjungpinang, especially those who are and have been assigned to the Galang Batang SEZ. Interviews are conducted semi-structured with prepared questions, in addition to holding FGDs to obtain perspectives from various stakeholders. Secondary Data Collection is carried out by accessing related documents and artifacts from various sources. Gather information from the internet, regulations, and previous studies.

### **Data Analysis**

In conducting data analysis, data validity is required. The credibility of qualitative research is sought through triangulation. Saebani (Saebani, 2015) Stated that triangulation is a data collection technique that combines various data collection techniques (observation, interviews, documentation) and data sources (different sources). Theoretical triangulation will also be applied to explain a phenomenon that cannot be fully explained by a theory.

This research was compiled based on the collection of data and information from every employee of KPPBC TMP B Tanjung Pinang who is or has been carrying out duties in the Galang Batang SEZ, business actors, and the community, namely qualitative methods through interviews and observations to obtain primary data. Complementing the data that has been obtained, secondary data collection is carried out by a literature study. The literature study method is carried out by examining artifacts that can be accessed such as several regulations, asset data and office human resources, other similar research, photographs, and various other data sources that support this scientific research.

## **RESULTS AND DISCUSSION**

The results and discussion chapter of the thesis on the Galang Batang Special Economic Zone (SEZ) reveals several key findings regarding its development and governance.

### **Infrastructure Development**

The research indicates that infrastructure development within the Galang Batang SEZ has been progressing optimally. The government has made consistent advancements in building necessary facilities, which are crucial for supporting economic activities in the zone. This development is essential for attracting investment and facilitating business operations.

The main business actors in the Galang Batang SEZ are PT. Bintan Alumina Indonesia (BAI) is one of the initiators of the proposal for the establishment of the Galang Batang SEZ which later became a business actor in it. BAI has sizable bauxite reserves and produces alumina using Bayer technology. The alumina produced is then sold to local and international customers for use in aluminum production.

In Special Economic Zones, the government facilitates industrial activities through fiscal incentives and infrastructure support. The study highlights that various fiscal incentives and services provided by the government have succeeded in attracting Foreign Direct Investment (FDI) to the Galang

Batang SEZ. These incentives are designed to create a favorable investment climate, which is reflected in the investment commitments received by SEZs. The effective use of these incentives plays an important role in improving the competitiveness of the zone.

### **Opportunities and Challenges**

The Galang Batang Special Economic Zone has several opportunities to be developed, including its strategic location because it provides direct access to the Strait of Malacca (one of the busiest international shipping routes in the world); the potential for abundant natural resources, especially bauxite which can create significant added value through the downstream of mining products; support from the government that provides various incentives to attract investment, including tax exemptions and ease of licensing; Another opportunity is the impact of economic multiples with an increase in job opportunities, the area will also have an increase in regional income and the welfare of the local community; Lastly, there is an opportunity to integrate into the Global Value Chain (GVC) so that this region can connect with the global production network and expand market access and increase the competitiveness of Indonesian products.

### **Challenges**

Despite the positive developments, there are still several challenges in governance and policy implementation within the Galang Batang SEZ. This study identifies internal government problems and external factors that hinder optimal progress. These challenges include bureaucratic inefficiencies, regulatory hurdles, and a lack of coordination among stakeholders, which can deter potential investors and impact overall economic performance. In addition, there is a limited workforce that meets the quality, so there is a need for training and skill development programs to improve competence, especially for local workers. The occurrence of environmental impacts due to mineral management can cause long-term problems. The biggest challenge is the fierce competition from similar economic zones in neighboring countries such as Malaysia and Singapore which have strong infrastructure and integrated global markets.

### **SWOT Analysis**

From the results of observations and data obtained, below are the results obtained regarding the evaluation of the management strategy of the Galang Batang SEZ which was reviewed according to the SWOT analysis.

**Tabel 1**  
**SWOT Analysis**

Strengths (S)	Strategic location near the Strait of Malacca, Regulatory support, and incentives from the central government, Focus on the high-tech mineral processing industry.
<b>Weaknesses</b> (W)	Inadequate infrastructure, Lack of HR training focused on industry needs, Barriers to integration into GVC.
Opportunities (O)	Downstreaming minerals can increase added value, the potential for exporting processed mineral products to ASEAN countries, and the opportunity to make SEZs a model for other regions.
Threats (T)	Competition with similar economic zones in neighboring countries, Global economic uncertainty affecting

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investment, and Environmental impacts due to industrial activities.

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In conclusion, while the Galang Batang SEZ shows promising infrastructure development and effective use of fiscal incentives to attract investment, addressing existing challenges is crucial for its long-term success. The findings underscore the need for improved governance structures and enhanced collaboration among stakeholders to fully realize the potential of the SEZ as a driver of economic growth in Indonesia.

Based on the data collected from field observations and interviews with key informants, several policy recommendations have been identified to enhance the effectiveness of managing the Galang Batang Special Economic Zone (SEZ). Firstly, there is a need to strengthen infrastructure, which includes the construction of dedicated ports and an integrated transportation network, as well as the procurement of modern surveillance technologies such as CCTV and automated measuring devices. Secondly, prioritizing the development of local human resources (HR) is essential through collaboration with educational institutions to provide training tailored to industry needs, along with offering internship programs and scholarships for local communities. Thirdly, the integration of the SEZ into Global Value Chains (GVC) can be improved through strategic partnerships with global companies to expand market access and harmonize regulations to align with international standards. Furthermore, the services provided by the Directorate General of Customs and Excise (DJBC) should be enhanced by implementing blockchain technology to increase transparency and efficiency in customs processes, as well as simplifying administrative procedures to encourage investment. Finally, adopting sustainable practices, such as utilizing renewable energy in production processes and managing industrial waste effectively, is crucial for minimizing environmental impacts.

## **CONCLUSION**

The thesis entitled "Governance of the Development of the Galang Batang Special Economic Zone (SEZ) Riau Islands" explores the strategic importance of the Galang Batang SEZ in Indonesia's economic landscape, especially in promoting mineral and logistics downstream. The study identifies a significant lack of zone utilization due to challenges in governance, policy implementation, and integration into global value chains. The Galang Batang SEZ has been designated as a strategic area for mineral processing and logistics, with great potential to support local and national economic growth. The governance for the development of the Galang Batang SEZ has been designed by implementing policies in the form of fiscal incentives such as income tax and VAT exemptions, as well as non-fiscal incentives such as ease of licensing. The Directorate General of Customs and Excise (DJBC) plays an important role as a trade facilitator with the implementation of the e-customs system to speed up the time for goods clearance, as well as industrial assistance through the provision of training and incentives for industry players.

The Galang Batang SEZ has great opportunities thanks to its strategic location near the Malacca Strait, abundant bauxite natural resources, and government policy support to increase investment. The region also has the potential to create more than 23,000 jobs and be connected to the Global Value Chain (GVC), expanding international market access. However, the region faces significant challenges in the form of a lack of supporting infrastructure, inadequate quality of human resources, complex

licensing processes, competition with similar economic zones in neighboring countries, and environmental impacts from industrial activities.

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