

# Institutional Dualism and Its Impact on Economic Development The Case of Dualism in Batam

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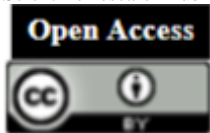
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## Abstract

Batam as a region with a strategic position, located on the international trade route, was developed to become one of the engines of economic growth in Indonesia. However, in its development, Batam faced governance problems that had an impact on the decline in its economic performance. Not only at the local level, but its influence reaches the national level. This study explains the causal relationship of Dual Governance, focusing on aspects of formation, relations between institutions and their impact on development. Using the framework of Holzinger, Kern and Kromrey (2016), this study captures the issue of institutional dualism that has occurred for years and is considered to be the cause of the decline in development in Batam. The study was conducted using qualitative research methods with a case study approach and collecting data from interviews and document analysis. There are several concluding points in this study regarding institutional dualism and its impact on economic development based on Batam's case. They are the implementation of decentralization, the significance of the pre-existing institution, the similarity between two institutions in respect of interpreting and implementing policies and the relationship between intergovernmental relations and economic development. These three factors affect the degree of intergovernmental relations which is directly proportional to economic development. The more intergovernmental relations are, the higher economic development is.

**Keywords:** Dual Governance, Economic Development, Institutional Dualism, Intergovernmental Relation

## 1. Introduction

Regional development is an effort in improving the socio-economic conditions of an area, by overcoming existing problems and exploiting the potential that exists in the region. In the regional development process, the role of development actors is very important. One of the development actors is government. Government is an important actor in regional development because they are policy maker, which determines the direction of development of an area. Accuracy in the selection of policies by the government is important, especially with wide and varied regional conditions. One-state policies made by the Central Government might not be suitable in all regions or may not work as smoothly as expected, like decentralization. The decentralization policy is implemented in order for local institutions to innovate and develop their territories because they are representatives of the local population; and their subsequent policies are expected to be more effective (Cheema & Rondinelli, 1983)

However, decentralization has had some negative effects, often depending on the conditions and capabilities of existing local institutions. One of the issues raised is dual governance. The emergence of local government as a product of regional autonomy sometimes creates conflicts with a pre-existing polity. Since the newly created and pre-existing institutions have authority in the same area, the relationship between the two institutions is important, especially in development policy making.

Batam is one of the potential areas in Indonesia that gets special treatment from the Government. To support Batam as an economic growth engine, the Government implemented a special policy for Batam by establishing a special Agency, BIFZA (The Batam Indonesia Free Zone Authority), as the main actor in economic development in Batam. In 1998 Indonesia changed its government system from centralized to decentralized. This has a significant influence on all regions in Indonesia, including Batam. The existence of Law No. 2 of 1999 on Local Government makes

Batam has two government agencies that have the similar scope of the management area. The existence of two government agencies is expected to be able to support each other for the development of Batam as a special economic zone. However, in the course of time, the issue of dualism emerged and was referred to as the root problem of the decline of the Batam economy.

Given the contradictory developments under the decentralization regime, this study aims to examine the complex institutional arrangement in Batam between BIFZA (The Batam Indonesia Free Zone Authority) and the Batam City Government as the two main institutions that play a role in institutional dualism issues. Considering the importance of Batam's position in national development and the magnitude of the impact of institutional dualism problems, this study is expected to describe the phenomenon and be a consideration in formulating the policy as a solution to the dualism issue. Using institutional setups and political graphs (Holzinger, Kern, & Kromrey, 2016), this study will identify the phenomenon of institutional dualism and explain how Batam with all its potential and policies applied in it has not developed according to its original objectives and even decreased.

## 2. Literature Review

There are some explanations regarding institutional dualism. Brinkerhoff and Goldsmith (2005) state that institutional dualism is related to the co-existence of two institutional contexts (good governance and bad governance) that are seen to come into contact because of attempted innovation in the public sector. As they explain, institutional dualism has been held responsible for the declines of development, such as bad business environment, lack of international economic competitiveness, inadequate public and social services and limited democratic participation in public affairs. Furthermore, there are several other terms that have similar meanings to institutional dualism, one of them is twilight institutions. As described by Lund (2006, p. 694) twilight institutions is co-existence of multiple public authorities produces multiple, partly overlapping territories, established as places as meaning is attached to otherwise rather inert spatial widths, distances and points. Another term is mentioned by McLeod and Airey. They explain dualism in dual governance terms. They mentioned that dual governance occurs when two institutions carry out the same activities in formulation and implementation and try to influence tourism development (McLeod & Airey, 2007). The result of this dual governance is the potential for conflict to arise rather than collaboration especially if the two institutions have different ideological positions

A more detailed explanation is revealed by Holzinger, Kern and Kromrey. They explained dualism to be the co-existence of two polities. They focus on international organization of traditional polities, interaction with state governance and political consequences of the dualism, for democracy, peace and conflict and development. In particular, the significance of traditional communities, whether the state is democratic or autocratic, more or less developed, will affect the causal process (

Holzinger, Kern, & Kromrey, 2016). The problem that often arises in dualism is when there is a discrepancy between two systems/institutions, especially in managing a region. Explicit legal integration and institutional harmonization are needed to reduce coordination costs and manage the dual polity (Holzinger, Kern, & Kromrey, 2016). Legal integration and harmonization manage the relations between the two systems and differentiate their authority as delineating their respective work areas or competencies to reduce the impact of dualism due to parallelism regulated by two systems. Governance and economics are closely interrelated in economic performance. Political noise, such as dualism is a barrier in the development process.

This study uses a framework from Holzinger, Kern and Kromrey (2016), arguing that the framework includes factors that are closely related to the process of institutional dualism in Batam. As previously explained, Putra (2014) and Zaenuddin *et al.* (2017) that dualism in Batam relates with the decentralization process in Indonesia that occurred in the reform era. Decentralization has a close relationship with democraticness in regional development, as mentioned by Guzman and Reforma (1993) that decentralization as a strategy towards democratizing the political system and accelerating the attainment of sustainable development has been an enduring issue in the landscape of public administration.

Furthermore, this framework assesses one polity/institution that has a history and an important role in the development of a region. Significance of BIFZA becomes an important variable, assessing the role and how it acts towards other institutions which then influence the development process. Similarity between two institutions is also an important point in dualism because it will affect the process of integration or harmonization between the two institutions. The harmonization and integration will later affect the development of a region. This research will focus more on one object, economic development.

Using Holzinger, Kern and Kromrey's (2016) framework with a slight modification, especially the type of system or institution namely BIFZA (The Batam Indonesia Free Zone Authority), as the pre-existing institution and has a major role in the development and Batam City Governance as a new institution, which is a product of democracy (decentralization). The following is the theoretical framework:

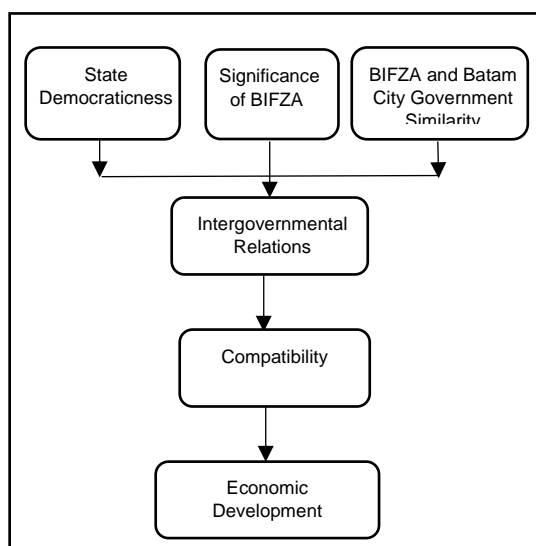


Fig 1. Theoretical Framework  
 Source : Modified from Causal Graph of Institutional Setups and Political Consequences (Holzinger, Kern and Kromrey, 2016)

In contrast to the original framework, this study uses the term intergovernmental relations to adjust to the Batam case, which explains the linkages between two institutions formed by the Central Government and interacts in managing a region. As explained by Phillimore (2013), intergovernmental relations is an important part of the political system in more than one level of government; with several dimension include vertical, horizontal and sectorial dimensions, as well as the degree of formality with which Intergovernmental Relation (IGR) is carried out. Using this term, this study will explain how the interactions between the two institutions (BIFZA (The Batam Indonesia Free Zone Authority) and the Batam City Government) affect the economy of Batam.

### 3. Methodology

The study used qualitative method with case study approach. It also used stakeholder analysis in order to explain the interest and influence with specific focus on several stakeholders, interrelation between them and also the impact of policy (Brugha & Varvasovszky, 2000). The spatial scope of this study is Batam which is located at place category with the gps coordinates of 1° 4' 58.1808" N and 104° 1' 49.6452" E. The stakeholders who were involved in this study were both BIFZA (The Batam Indonesia Free Zone Authority) and Batam City Government and also third parties who were impacted by institutional dualism, namely Ministry of Agrarian Affairs and Spatial Planning (Land Office of Batam), the companies and Indonesian Chamber of Commerce and Industry.

In this study, there were two kinds of data, primary and secondary data. The primary data was obtained through in-depth interviews with purposive sampling, observation, a literature study and documentations reviews. The secondary data was obtained from notes, government document and regulations. Some literature studies regarding dualism case in Batam was used to strengthen the analysis. Purposive sampling was used to choose the

stakeholder in order to reveal their opinions about the current condition and development in Batam and the actors involved in it. The study used triangulation for data validity, in order to reduce imperfection and bias, to help compensate for limitations in any particular method, and to gather data from multiple sources via multiple methods (Flick, 2014). This study analyzed data by enriching information, looking for relationships, and comparing, finding patterns on the basis of the original data. In this study, the data will be divided into two main focuses, which are related to economic growth and management of land use.

## 4. Results and Discussion.

### 4.1. State Democraticness

The establishment of Batam as an autonomous region was initially as a support for BIFZA, especially in terms of social affairs. The conflicts later arose when Batam City Government carried out several authorities which intersected with the authority of BIFZA (Zaenuddin, Kumorotomo, Saleh, & Hadna, 2017). Decentralization, which initially aimed to improve development in the regions, actually caused confusion at the local level, especially in its implementation. The local government cannot fully act according to the law because it collides with BIFZA's (The Batam Indonesia Free Zone Authority) authority. This has caused tremendous confusion for the community and business people in Batam.

The emergence of institutions under the Batam City Government adds to the long list of offices that must be approached for licensing. The complicated procedure and bureaucracy has had a negative impact on the investment climate in Batam. Business people want certainty in time and cost, while in Batam both of these are difficult to obtain due to the institutional dualism. The changes of Mayors every 5 years could bring its own influence on the economy of Batam. As a product of the reform era, regional autonomy became a big leap of democracy in Indonesia, one of which was marked by public participation in the General Election. Regional autonomy will produce an area with legal community units that have regional boundaries, and have the authority to regulate and manage government affairs and the interests of local communities according to their own initiatives based on the aspirations of the community.

However, often the Central Government does not review in more detail the initial history or socio-economic conditions and the initial politics of each region, whether the area is suitable and able to implement the policy. It is important to know the obstacles and opportunities in implementing these policies in the form of action/detailed programs (Cheema & Rondinelli, 1983). Batam with its specialty is one example where decentralization seems to fail in the regional development process. The emergence of new institutions with similar authority made uncertainty at the local level and caused confusion for the community. Moreover, in economy, consistency is an important part because changes in policy have a major impact on development and this is difficult if the government continues to change in the short term. Decentralization, which was originally intended to provide excellent service and be right on target for the community, was complicated by an inefficient

bureaucracy. In the implementation of development programs, conflicts often occur between two institutions, and this is not immediately resolved resulting in prolonged conflict.

#### 4.2. Significance of BIFZA (The Batam Indonesia Free Zone Authority)

BIFZA (The Batam Indonesia Free Zone Authority) is a Central Government institution formed by Presidential Decree No. 41 of 1973, which was later renewed by Government Regulation No. 46 of 2007 with the duties and authority to carry out management and development of the area in accordance with regional functions. In accordance with the Regulation of Chairman of the Batam Free Trade and Free Port and Free Trade Zone Agency Number 10 of 2011 dated September 21, 2011, BIFZA has the task of carrying out management, and development in the Batam Free Trade and Free Port Area. BIFZA's role in Batam is as a developer. The growth of Batam is in the hands of BIFZA. Growing investor interest in entering Batam is one of the strategies played by BIFZA by presenting a safe and conducive situation in Batam, so that investors are interested in investing in Batam. The growth of the city of Batam as an industrial city is currently in the hands of BIFZA, even the ups and downs of investors in Batam depend on the strategies played by BIFZA.

BIFZA carried out their role until finally the positive impact was felt by the communities. Existing infrastructure supports community livelihoods, especially for the industrial sector. Batam is a developed city, even when compared to other regions. When Indonesia experiences a monetary crisis, Batam's economic growth remains high above the national average. Even in term of development, Batam is more advanced because of BIFZA. BIFZA is considered more capable in carrying out development.

But unfortunately there are still parties who do not understand the existence and role of BIFZA, even weakened its position. The issue of dualism is one issue that aims to weaken the authority of BIFZA. The emergence of new policies intends to reduce BIFZA's authority such as changes in FTZ (Free Trade Zone) to KEK (Kawasan Ekonomi Khusus/Special Economic Zone). With the change of FTZ to KEK, BIFZA's authority is only in the industrial area and the rest is under the jurisdiction of Batam City Government.

Holzinger, Kern and Kromrey (2016) in their study mentioned that the more significance of traditional governance (as the pre-existing institution) in an area, the more negative consequences might appear. However, other than Batam. The issue of institutional dualism and the policies that have been planned as a solution, for some parties are considered as weakening the authority of BIFZA. Looking at the history of Batam's development and current development results, it cannot be denied that BIFZA as a building institution has a large role. Weakening the position of institutions that have important roles is not easy to do. Its existence is believed bringing a positive impact on areas that are under its authority. Concerns about the weakening of authority have become the attention of the communities. That is why it is not easy to weaken or

even shift the position of institutions that have held public trust.

#### 4.3. BIFZA and Batam City Government Similarity.

The establishment of BIFZA by the central government was for regional development purposes in Batam, and so was the Batam City Government, the initial formation of which was also to help BIFZA develop Batam. BIFZA focuses on the development of trade, industry, and other sectors that support these two main sectors. However, the authority was also mentioned in the regional autonomy law (Law No. 23 of 2014 on Local Government) which was used as the basis for the Batam City Government to work. Even so, this has subsequently become a trigger for the institutional dualism issue in Batam.

Despite some apparent overlapping, the two institutions have different roles. In their duties and functions, the two institutions do not carry out the same type of work, only they are related to one another. The two main sectors that are often debated are industry (investment) and land. For investment, BIFZA focuses on Foreign Investment while Batam City Government focuses on Domestic Investment. The majority of industries in Batam come from abroad. Until now, this authority is on the side of BIFZA. Thus the economic impact of the large amount of investment in Batam City cannot be enjoyed by the local community, because there is very little income from investment tax that is the right of the local Government

In terms of land authority, Management Rights on land are under the authority of BIFZA. All forms of land use must obtain a Principle License from BIFZA, including if Batam City Government wants to build public facilities such as schools and hospitals. Batam City Government argues that this makes it difficult for them to provide public facilities, and often the location allocated is not as their expected.

For the allocation of land, BIFZA refers to Presidential Regulation No. 87 of 2011 on Batam, Bintan, and Karimun Area Spatial Plan. The regulation states that regions without RTRW (Spatial Planning) must initiate RTRW referring to the law, and for those who already had RTRW, they should be revised immediately. However, Batam City Government did not revise its spatial documents, so that there has been an inconsistency between Land Allocation from BIFZA and Spatial Planning from Batam City Government. Conflict in development planning and control due to Principle License or Land Allocation issued by BIFZA, while Building Permit is issued by Batam City Government. Building Permit will not be issued if it is not in accordance with spatial documents. As a result, the land that has been obtained from BIFZA cannot be built because it is hampered by permits from Batam City Government. The land becomes neglected and unproductive. Even today, Batam does not have the new RTRW/Spatial Planning (which is the main mandatory document for the development of one region) and still uses the previous RTRW namely Regional Regulation No.2 of 2004 which the expiration date of 2014. Debate on the contents of the RTRW has also not resolved.

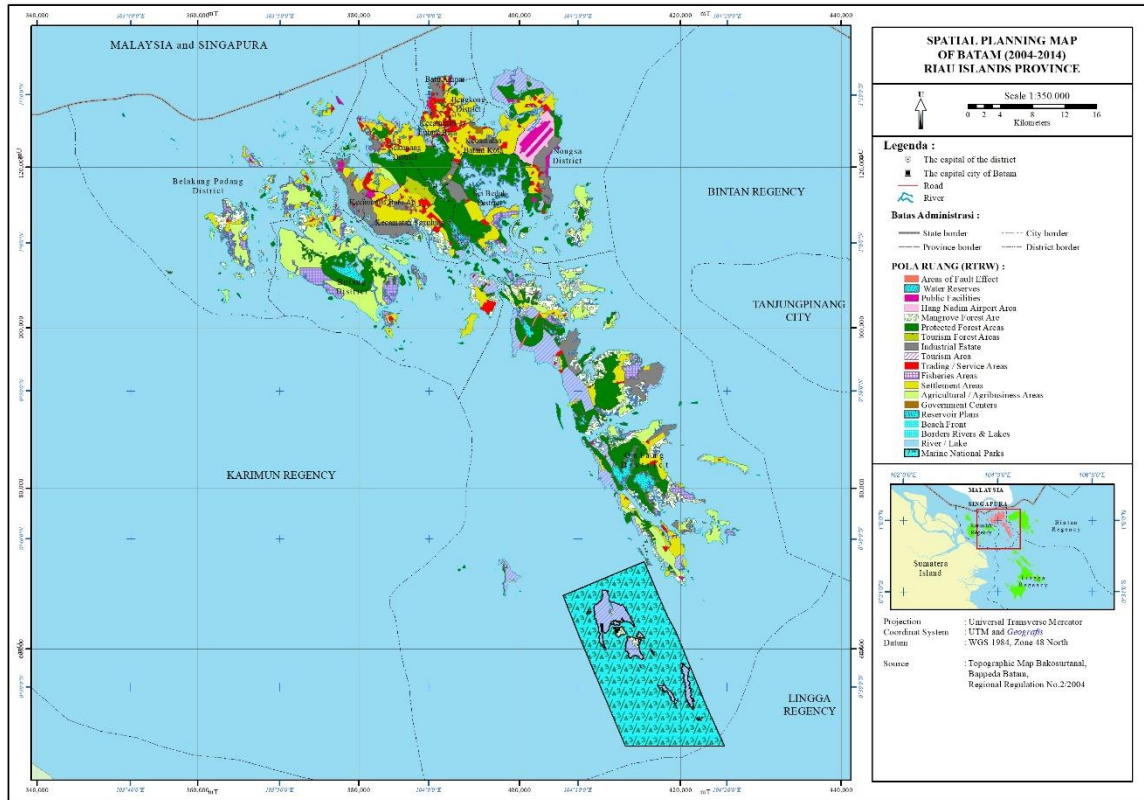


Fig 2. Spatial Planning Map of Batam  
 Source: Bappeda Batam

From the explanation above, it can be seen that the problem of institutional dualism is becoming increasingly complicated because there are differences in the interpretation of regulations, which results in each institution assuming that its authority is taken or hampered by the instances of its opponents. This difference in interpretation results in the political issue and the policies are not synchronous. Irrelevancy occurs because mechanisms are made out of synchronization with each other. In the regional autonomy law it has been mandated that a supporting regulation be issued to regulate the working relation of the two institutions, but until now the regulation has not been issued yet.

These conflicts become obstacles, especially for business people, because the documents they submit are constrained and the completion time is longer. The uncertainty of rules that hinders the economic path of the company, where time is something that is considered important for entrepreneurs. Both institutions actually have the same goal, but multiple interpretations of the regulations and no detailed explanation of the working relationship cause confusion especially, for employers and third parties.

#### 4.4. Intergovernmental Relations

Consistency and quality of intergovernmental relations is necessary to successfully link implementing actors with other actors for achieving policy objectives (Cheema & Rondinelli, 1983). But unfortunately, until now, no supporting

relationship between BIFZA and Batam City Government, even though the matter was mandated in Law No. 53 of 1999. Conditions are compounded by the rarity of the two institutions to coordinate. In fact, interaction and coordination among large numbers of institutions at different levels of government are required for successful policy implementation (Cheema & Rondinelli, 1983). Neither institutions understands the aims and objectives of policies made by the other institution. As a result, the policies of both institution are out of synchronization. Policy is a guideline for the government to act. When policies in managing the area are contradictory, this will lead to conflict.

However, to overcome the conflicts, some efforts have been made by the Central Government which were already explained as the efforts of weakening BIFZA position. The first plan is changing the status of the FTZ (Free Trade Zone) to a KEK (Kawasan Ekonomi Khusus/Special Economic Zone). The second effort was the replacement of the head of BIFZA to become the mayor of Batam. Some parties, especially from the local government suggested that Batam should be managed only by one institution. The alternative is that one institution be dissolved or both institutions be merged into one under one leadership. The dissolution of one of the institutions (BIFZA) is considered as a solution to the problem of institutional dualism, but opposed by the business community. They are concerned that investment commitments initiated and approved by BIFZA will be delayed or even cancelled, which will negatively affect Batam's economy. Investors invest

in Batam refer to the FTZ scheme (Government Regulation No.46 of 2007 on the establishment of a Free Trade Zone) in Batam offered by the government. The Central Government must pay more attention to the plan so as not to cause negative excesses on the investment and employment climate.

The efforts to harmonize the two institutions has been unsuccessful due to ineffective relations between the two institutions. Decentralization produces new institutions, in order to have a positive impact, local governments should have effective relationships with previous institutions (Cheema & Rondinelli, 1983). After regional autonomy in Batam, Batam City Government and BIFZA as pre-existing institutions should coordinate with each other, but instead claim each other's authority. They even have different perceptions about the basis in decision making process and make efforts to protect their authority. So, it is difficult to establish a viable linkage between them. Coordination worsened and the two institutions rarely sit together in policy making. Despite Law 23 of 2014 stating that BIFZA will be included in decision making in government. While trust and respect between governments is an important part of achieving effective intergovernmental relations (Phillimore, 2013). Therefore, including other institutions in policy-making process will make relations between the two institutions and the policies produced more effective.

The existence of these two institutions, supported by two legal substances and different structures, has made the implementation of Batam's management policies chaotic (Zaenuddin, Kumorotomo, Saleh, & Hadna, 2017). Even though they already have a legal basis as well as an explanation of their respective functional duties, the issue of overlapping authority still arises. This is caused by blurring of boundaries of authority. In addition, there are no standard implementation procedures, which can minimize conflict. As a result, policies and programs made difficult to synchronize. Therefore, the similarity between BIFZA and Batam City in respect of interpreting and implementing regulation is important in order to create effective and efficient relationships. The greater similarity between them is, the more effective the intergovernmental relations are.

## **5.1. The Impact of Institutional Dualism on Batam's Economic Development**

### **5.1.1. Economic Growth**

The trend of economic growth and investment in Batam after regional autonomy is lower than before the autonomy (Zaenuddin, Kumorotomo, Saleh, & Hadna, 2017). After the reform, the performance of industrialization in Batam continued to decline and many industries are leaving from Batam. Batam, was originally developed for industry and exporting goods is currently advertised by many property sales. The composition of exports and imports in Batam are almost balanced. This means that Batam is limited to being a free trade area, because the added value of imported raw materials is very small..

This condition is exacerbated by the effects of the global economic downturn, especially in 2015 when world oil prices fell. The main industry in Batam is an industry related to oil and gas. When major industries decline, the supporting industries such as

shipbuilding and barge industries also decrease. That is why many industries in Batam have stopped operating. Another problem is the rise of UMR (Upah Minimum Regional/Regional Minimum Wages) every year. This is also a concern of business people, considering that currently there are several other countries such as Malaysia that offer lower wages. High operational costs are one of the considerations for employers to move their factories to other countries. This will affect the competitiveness of Batam as an industrial area.

Batam's economy is dominated by industrial and trade activities where the majority are from abroad. FDI (Foreign Direct Investment) is an important point for economic development in Batam. Foreign investment is under the authority of BIFZA. When the plan to dissolve BIFZA appeared, concerns arose from business people about the sustainability of their business. Business people have high trust in BIFZA's ability in a professional manner in managing the industry in Batam. The plan to transfer BIFZA to the Batam City Government, change the leadership of BIFZA or even dissolve BIFZA will increase regulatory uncertainty, regulations, land, infrastructure and certainty of incentives for investors. So, all forms of weakening BIFZA's authority are feared to have a negative impact on the economy.

The various problems faced by Batam make the economy continuously decline from year to year, a sign that the development carried out and policies run by the government are not effective. Regional economic growth depends on the leading sector, in this case Batam's leading sector is industry (manufacturing). As mentioned earlier, this sector has experienced shocks due to the global economic problem.

### **5.1.2. Land Management**

Another problem is uncertain regulation over land use arrangements. The dual polity is problematic because of the potential incompatibility of two institutions systems in one territory (Holzinger, Kern, & Kromrey, 2016). Regional development is influenced by how the government is able to use land effectively and efficiently, as explained by Blair (1995) that an efficient distribution of land uses contribute to local economic development prospect, so the ability to influence land use decisions is an important economic development level. Therefore both institutions must be able to coordinate in land use arrangements. However, at present there are still frequent conflicts regarding the authority of land ownership and determination of land use. Unsynchronized decision making hampers the development process.

As explained in the previous chapter, there are several land use management problems that occur in Batam, including the asynchronous use of the basis for determining land use between BIFZA and Batam City Government. There has been an inconsistency between Land Allocation from BIFZA and Spatial Planning from Batam City Government. There has been an inconsistency between Land Allocation from BIFZA and Spatial Planning from Batam City Government. The disadvantaged parties are the community and entrepreneurs because they cannot continue development. IMB (Building Permit) will not be issued if it is not in accordance with the RTRW.

While the basis for determining the allocation of land is not the same as the RTRW. The discrepancy further affects the legality process of land. Land certification cannot be carried out if it is not in accordance with the spatial plan. Land that should be used becomes neglected. Double taxation also occurs in the management of land in Batam. In addition to paying the Land and Building Tax (*Pajak Bumi dan Bangunan/PBB*) to the Batam City Government, the public is also required to pay the Authority's Annual Obligation (*Uang Wajib Tahunan Otorita/UWTO*) to BIFZA. This is detrimental to the community and entrepreneurs. The development process has stalled, the development costs have become greater. For entrepreneurs, this condition is very unfortunate because it is very detrimental financially.

The legalization of assets on the island of Batam is not the same as other regions in Indonesia. The existence of BIFZA granted by the authority over land management rights makes the process of land certification different from other cities. The main basis for the legalization of land assets on the island of Batam is from BIFZA. The perceived impact might be positive and negative. Positive because Land Designation is regulated by one party, BIFZA. When investors come to build a factory, they do not need to struggle to find the right location because it will be prepared by BIFZA, when the local government will build public facilities it will be made easier because there is no need for a land acquisition process, community compensation. So that the process can be faster. Nevertheless, the negative impacts arose especially when BIFZA and Batam City Government disagreed both in the determination of land use and land ownership.

Other land issues highlighted are *Kampung Tua* (Old Villages) and land reclamation. The problem of the Old Village in Batam occurred due to the difference in area issued by BIFZA with the submission from Batam City Government. BIFZA and Batam City Government had not found an agreement in the area of *Kampung Tua*. Moreover, the problem continued to the legalization of *Kampung Tua's* assets. There is a difference in perception between BIFZA and Batam City Government. For BIFZA, *Kampung Tua* will get the title of heritage area, and the consequence is that the land in *Kampung Tua* has limited legal assets. This means that the land cannot be traded. Whereas in terms of Batam City Government, land in *Kampung Tua* has the same legality as other regions in Indonesia where the land can get proprietary and get the same treatment as land ownership rights in general, including traded.

The problem that also remains unresolved is land reclamation. Land reclamation is in the authority of Batam City Government, outside the jurisdiction of BIFZA. In 2003, the petition for the issue of the land certificate of management right on behalf of Batam City Government was filed. However, in 2007, Government Regulation no 46 of 2007 on the Batam Free Trade Zone and Free Port Zone was issued. It was arranged all existing Management Right on the island of Batam transferred to the name of BIFZA, but until now this matter is still being debated. There are some reclamation land that has not been handed over by Batam City Government to BIFZA.

Unambiguous property rights are a prerequisite for land development as uncertainty hampers investment (Holzinger, Kern, & Kromrey, 2016). As previously stated, the legalization of assets on the island of Batam is different and more complex. With the decline in Batam's economic growth, the government is trying to improve its economy by attracting investment, especially foreign investment. The complex process of legalizing assets is often complained because it impedes the work of the company. If it is not addressed, it might have a major impact on Batam's economy, which is increasingly deteriorating and unable to compete with other countries such as Malaysia and Vietnam.

#### 4.5. Ineffective Intergovernmental Relations

The dualism case shows how the quality of intergovernmental relations in the Batam government system. From the explanation above, it shows ineffective intergovernmental relations has both direct and indirect impacts. Besides directly affecting service performance, this case has a long impact on the Batam economy. Especially when Batam was affected by the downturn in the world economy, the government as the main actor of development was unable to overcome these problems so that the Batam economy dropped dramatically especially in 2017. As an actor that plays a major role in the progress of one region, the government should be able to from preparing development plans to how to overcome the current problem comes.

Ineffective intergovernmental relations between the two institutions, have had a negative impact on Batam's economy. It gives a negative impression especially to the business community. Prolonged internal conflicts, declining economic performance, and inability to overcome external problems show the quality of regional management. This has reduced Batam's reputation as an industrial estate.

Solid and efficient institution foster regional development through creating adequate condition for investment and economic interaction (Rodríguez-Pose, 2013). Relations BIFZA and Batam City Government that are not harmonious make it difficult for them to coordinate and to produce policies that can increase economic growth. Intergovernmental relations is social capital and is an important factor in development because it is able to facilitate coordination and cooperation for mutual benefits (Rodríguez-Pose, 2013). Positive intergovernmental relations are expected to be able to accelerate the development process and be able to minimize development constraints through comprehensive policies.

Economic development and public service provision are areas where government institutions will interact with each other (Agranoff & McGuire, 1998, p. 151). To get a good outcome of public services and economic development, there must be intergovernmental capacity within the government system. Investing in intergovernmental capacity is crucial to achieving better outcomes (Phillimore, 2013, p. 237). In the case of Batam, the government was unable to provide an adequate environment for economic development (especially the industrial sector) and facilitated public services due to institutional dualism conflicts. The two institutions are

not coordinating, but instead debate the owner's authority and responsibility.

The explicit legal integration and institutional harmonization are needed to reduce coordination cost and manage the dual polity (Holzinger, Kern, & Kromrey, 2016). Therefore, it needs legal clarity in regulating the relationship of these institutions so there is no misinterpretation of regulations that lead to conflicts of authority between them. The government (BIFZA and Batam City Government) were unable to issue policies that succeeded in overcoming the economic crisis that hit Batam. Effective and efficient intergovernmental relations will help the development process because it can produce effective policies which will maintain and even spur economic growth and minimize development constraints. The investment climate is getting worse due to the issue of institutional dualism conflict affecting the decline in business confidence in the success of the companies in Batam.

Furthermore, in addition to providing clear policies as a medium for regulating relations between governments, they also need to be supported by informal or 'soft' conditions such as respect, trust, mutuality, tolerance of diversity, a willingness to engage and cooperate, and recognition of the legitimacy of the other's position (Watts, 2008, p. 38). The two main points cannot yet be fulfilled in intergovernmental relations between BIFZA and Batam City Government. Therefore, both in making and implementing policies, they cannot synchronize. As a result, producing policies that are not effective and the implementation of policies that are not optimal and even prone to conflict between institutions/organizations. The biggest impact is that the economic decline that continues to occur in Batam.

## 5. Conclusion

There are several concluding points in this study regarding institutional dualism and its impact on economic development based on Batam's case. They are the implementation of decentralization, the significance of the pre-existing institution, the similarity between two institution in respect of interpreting and implementing policies and the relationship between intergovernmental relations and economic development. These three factors affect the degree of intergovernmental relations, which is one of the important factors in the economic development of the region. Intergovernmental relations are directly proportional to economic development. The more effective intergovernmental relations are, the more positive economic development in the region is. Institutional dualism conflict arises when two or more institutions manage the same territory. The conflict will continue if the two institutions' respective functions are not clarified. As a development agent, the government must be able to manage the region, carry out development and overcome problems faced during the development process. Effective and efficient policies are needed to achieve development goals and can only be obtained if government has effective intergovernmental relations.

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