

**THE INDONESIA–MALAYSIA–SINGAPORE
GROWTH TRIANGLE (IMS-GT)
AND ITS IMPACT ON THE FERRY TRANSPORTATION
IN THE RIAU ISLANDS**

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NATIONAL UNIVERSITY OF SINGAPORE

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IN THE RIAU ISLANDS**

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**A THEIS SUBMITTED
FOR THE DEGREE OF MASTER OF ARTS
DEPARTMENT OF SOUTHEAST ASIAN STUDIES
NATIONAL UNIVERSITY OF SINGAPORE**

2014

DECLARATION

I hereby declare that this thesis is my original work and it has been written by me in its entirety. I have dully acknowledged all the sources of information which have been used in the thesis.

The thesis has also not been submitted for any degree in any universities previously.

Sugimoto Yoshihide

22 August 2014

Abstract

The IMS (Indonesia–Malaysia–Singapore) Growth Triangle, formerly known as the Singapore–Johor–Riau Growth Triangle (SIJORI), officially commenced in 1989. It has brought about significant socio–economic changes to the Riau Islands in Indonesia. Due to the joint development between the Indonesia and Singapore government, a huge amount of foreign direct investment (FDI) flew into the islands, especially Batam Island. A large number of employment was also created in industrial estates. Indonesians from other parts such as the Java and Sumatra Island migrated there for business and the official population in Batam reached one million. Thus, it attracted researchers’ interest in the 1990s, particularly as a target of FDI. As the industrial estates in the IMS-GT faced competition from industrial estates in other parts of Indonesia and other countries since around the late 1990s, it became less popular in the literature. Instead, other related topics such as the negative effects of the projects appeared in the 2000s.

This thesis examines the IMS-GT and its impact on the international and domestic ferry transportation in the Riau Islands especially since the late 1980s. Although sea routes still dominate transportation in this area, there is a lack of academic research on it. Analyzing them as an intermediary of people’s crossings offers a new perspective to the studies of both the IMS-GT and the sea transportation in Indonesia.

The finding of this thesis is that the ferry network and the number of trips in the Riau Islands are not necessarily in an upward trend. In the 1990s, the network has steadily expanded due to the implementation of the IMS-GT for both international and domestic routes. However, they were affected by external factors such as the deteriorating business environment, rising fuel prices, and competition with other growth areas for investment since around the beginning of the 2000s. In addition, the competition with airline companies dealt a severe blow at the domestic routes especially the long–distance ones. Therefore, the domestic ferry operators focus on the middle– and short–distance routes. Some operators left the market, while others

occasionally collaborated in various ways to weather the storm.

Through these experiences, Riau Islands has begun to function as the hub of the ferry transportation and thus facilitated an extensive ferry network to other islands in Indonesia and to neighboring ports of Singapore and Malaysia.

As for contributions to the existing literature, this research showed a different perspective of the IMS-GT in the Riau Islands relating to ferry transportation. It also investigated sea transportation for a particular region, while its literature in Indonesia primarily focuses on national matters.

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First and foremost, I would like to thank all of my respondents, employees of ferry and ship operators, agents and related organizations. This thesis would not have been possible without them: Mr. Nata Wirawan Setio, Mr. Eric Lim, Ms. Cherille Figueroa and Ms. Eranur Shahda in Singapore: Ms. Mariam Bte Yusof in Malaysia: Mr. Wadi, Mr. Alif Nurhidayat, Mr. Fauzy, Mr. AM. Heriyanto, Mr. Norman Nasroen, Mr. Susjianto, Mr. Hartono, Mr. Muhammad Sholehuddin, Mr. Aidil Sahalo, Mr. Dyan, Mr. Marlin, Mr. Budi Indra Susanto, Mr. Erik Mario Sihotang, Mr. Djohan Effendy, Mr. Hotman Naibaho and Mr. Sayuti in Indonesia. I am also grateful to other operators and agents that I conducted several short interviews at a port during my fieldwork. I would like to thank a variety of people I met and talked in Singapore, the Johor State and Riau Islands. Through exchanging opinions, I enhanced my understanding in the region. Misunderstandings in this research are all my responsibility and I apologize for any shortcoming of this research.

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Table of Contents

Declaration	i
Abstract	ii
Acknowledgement	iv
Table of Contents	vi
List of Figures	ix
List of Tables	xi
List of Abbreviations	xii
CHAPTER I: INTRODUCTION	
1.1 Introduction	1
1.2 Background, Research Questions and Hypothesis	4
1.3 Research Methodology	11
1.4 Structure of the Thesis	13
CHAPTER II: LITERATURE SURVEY ON INDONESIA–MALAYSIA–SINGAPORE GROWTH TRIANGLE (IMS-GT) AND THE FERRY TRANSPORTATION IN THE RIAU ISLANDS	
2.1 The Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT)	17
2.1.1 Historical Background	17
2.1.2 Motivation of Each Country	19
2.1.3 Development, Progress and Challenges	22
2.2 Role of Economic Complementarity, Geographical Proximity, Government’s Support and FDI	31
2.3 Summary: The Growth Triangle Perspectives	35
2.4 A Perspective on the Sea Transportation in the Riau Islands	37

2.5 Conclusion	38
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CHAPTER III: THE PICTURE: TRENDS AND PATTERNS OF THE INTERNATIONAL
FERRY TRANSPORTATION IN THE RIAU ISLANDS

3.1 Introduction	42
3.2 The 1980s and Before	50
3.3 The 1990s	53
3.4 The 2000s	57
3.5 The Current Situation	62
3.6 Conclusion	69

CHAPTER IV: EXPLAINING THE PICTURE: WHAT ACCOUNTS FOR THE
CHANGING INTERNATIONAL FERRY NETWORKS
IN THE RIAU ISLANDS

4.1 The role of Governments and International Regulations	71
4.1.1 The Singapore Government	72
4.1.2 The Indonesian Government	74
4.1.3 The Malaysian Government	76
4.1.4 International Regulations	77
4.2 The Impact of the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT)	79
4.2.1 Foreign Passengers	79
4.2.2 Indonesian Passengers	86
4.3 The Role of General and Specific External Factors	90
4.4 Case Studies	94
4.4.1 Bintan Resort Ferries Pte Ltd	94
4.4.2 Indo Falcon Shipping & Travel Pte Ltd	95
4.4.3 Batam Fast Ferry Pte Ltd	96

4.5 Conclusion	97
CHAPTER V: DOMESTIC FERRY TRANSPORTATION IN THE RIAU ISLANDS: TRENDS, PATTERNS AND DETERMINANTS	
5.1 Domestic Ferry Transportation in the Riau Islands: Trends and Patterns	102
5.1.1 Introduction	102
5.1.2 The 1990s	108
5.1.3 The 2000s	111
5.1.4 The Year 2013	115
5.1.5 Summary	120
5.2 The Changing Domestic Ferry Networks in the Riau Islands: Determinants	120
5.2.1 The Role of the Indonesian Government	120
5.2.2 The Roles of the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT) and External Factors	124
5.3 The Case Studies	130
5.4 Conclusion	136
CHAPTER VI: CONCLUSION	
6.1 Verifying Hypotheses	138
6.2 Looking Forward	142
Bibliography	146

List of Figures

Fig 1.1: Map of the Riau Islands, Singapore and the Johor State	2
Fig 1.2: Number of Foreign Visitors to the Riau Islands	5
Fig 1.3: Regional GDP in Batam	7
Fig 1.4: Population in Batam and Bintan	8
Fig 1.5: Cumulative Investment in Batam	9
Fig 2.1: Map of the Indonesia-Malaysia-Singapore Growth Triangle	16
Fig 2.2: Map of Newly-established Local Governments in the Riau Islands since 1998	29
Fig 2.3: The Triangle of Complementarity in the IMS-GT	32
Fig 3.1: International Ports in the Johor State, Singapore and the Riau Islands	43
Fig 3.2: Puteri Harbour Port in the Johor State	44
Fig 3.3: Nongsapura Port in Batam	44
Fig 3.4: A Ferry between the Riau Islands and Singapore	45
Fig 3.5: A Ferry between the Riau Islands and the Johor State	46
Fig 3.6: The International Ferry Network in 1980 and 1993	47
Fig 3.7: The International Ferry Network in 2001 and 2014	48
Fig 3.8: The International Ferry Network in 1993, 2001 and 2014	49
Fig 3.6.a: The Network between the Riau Islands and Singapore in 1980	51
Fig 3.6.b: The Network between the Riau Islands and Singapore in 1993	54
Fig 3.8.a: The Network between the Riau Islands and Johor State in 1993	56
Fig 3.7.a: The Network between the Riau Islands and Singapore in 2001	58
Fig 3.8.b: The Network between the Riau Islands and Johor State in 2001	61
Fig 3.7.b: The Network between the Riau Islands and Singapore in 2014	63
Fig 3.8.c: The Network between Riau Islands and Johor State in 2014	68
Fig 4.1: Number of Foreign Visitors to Bintan and Karimun	81
Fig 4.2: Number of Indonesians who Entered Singapore by Sea	89

Fig: 4.3: Number of Indonesians who Went Overseas by Sea	89
Fig 4.4: Number of Foreign Visitors to Batam by Nationality	93
Fig 5.1: Domestic ports in Batam, Bintan, Karimun and Kundur Islands	101
Fig 5.2: Telaga Punggur Port	102
Fig 5.3: Sekupang Port	103
Fig 5.4: Tanjung Balai Port	103
Fig 5.5: A Ferry	104
Fig 5.6: A Speedboat	105
Fig 5.7: Changes of the Domestic Ferry Network in the Riau Islands	106
Fig 5.8: Changes of the Interisland Ferry Network around Tanjung Balai	107
Fig 5.7.a: The Network in the Riau Islands at the Beginning of the 1990s	108
Fig 5.7.b: The Network in the Riau Islands at the Beginning of the 2000s	111
Fig 5.8.a: The Interisland Network around Tanjung Balai at the Beginning of the 2000s	113
Fig 5.9: A Small Ferry	114
Fig 5.7.c: The Network in the Riau Islands in 2013	118
Fig 5.8.b: The Interisland Network around Tanjung Balai in 2013	119
Fig 5.10: Changes of Minyak Solar Price	127
Fig 5.11: Number of Arriving Passengers to the Batam Domestic Ferry Terminal	129
Fig 5.12: Number of Arriving Passengers to the Sekupang and Telaga Punggur Domestic Ferry Terminals	129
Fig 5.13: A PELNI Ship	132
Fig 5.14: PELNI Routes in the Riau Islands in 2014	132
Fig 5.15: An ASDP Ro-ro Ferry	134

List of Tables

Table 1.1: Number of Foreign Visitors to the Riau Islands	6
Table 2.1: Selected Indicators of the IMS-GT in 1990	23
Table 2.2: Selected Indicators of the IMS-GT in 2010	23
Table 2.3: Factor Costs in Johor, Singapore and Batam in 1989	32
Table 3.1: Ferry Operators and Their Number of Trips in 1989	52
Table 3.2: Ferry Operators and Their Number of Trips in 1993	53
Table 3.3: Ferry Operators and Their Number of Trips in 2001	57
Table 3.4: Ferry Operators and Their Number of Trips in 2014	63
Table 3.5: The Change of Entry Points for Foreigners and Indonesians	64
Table 3.6: Operators, Agents and Ferry Names and Their Trips in March 2014	67
Table 4.1: Ports in the Riau Islands and Their Operating Companies	75
Table 4.2: Ports in the Johor State and Their Operating Companies	76
Table 4.3: Nationality of Foreign Tourists to the Riau Islands, 2011	81
Table 5.1: Ferry Operators in Telaga Punggur	109
Table 5.2: Ferry Operators in Sekupang	110
Table 5.3: Operators and Agents in the Interisland Terminal, Tanjung Balai	115
Table 5.4: Comparison between Sea and Air Trips in the Jakarta–Batam Route	133
Table 5.5: Comparison between Sea and Air Trips in the Medan–Batam Route	133

List of Abbreviations

ASEAN:	Association of Southeast Asian Nations
BBIR:	Bintan Beach International Resort
BBK:	Batam Bintan and Karimun
BBT:	Bandar Bentan Terani
BIDA:	Batam Industrial Development Authority
BIE:	Bintan Industrial Estate
BIFZA:	Batam Indonesia Free Zone Authority
BIP:	Batamindo Industrial Park
BOT:	Build-Operate-Transfer
BRF:	Bintan Resort Ferries
FDI:	Foreign Direct Investment
FTA:	Free Trade Agreement
FTZ:	Free Trade Zone
GDP:	Gross Domestic Product
GT:	Growth Triangle
IMS-GT:	Indonesia-Malaysia-Singapore Growth Triangle
IMO:	International Maritime Organization
ISEAS:	Institute of Southeast Asian Studies
ISI:	Integrated Sourcing Initiative
ISM:	International Safety Management
ISPS:	International Ship and Port Facility Security
KMIC:	Karimun Marine and Industrial Complex
MNC:	Multinational Corporation
MPA:	Maritime and Port Authority of Singapore
PELNI:	Pelayaran Nasional Indonesia

PT: Perseroan Terbatas (=Limited Company)

PSA: Port of Singapore Authority

Pte Ltd: Private Limited

Rp: Indonesian Rupiah

RM: Ringgit Malaysia

SCCPL: Singapore Cruise Centre Pte. Ltd

Sdn Bhd: Sendirian Berhad (=Limited Company)

SEZ: Special Economic Zone

SIJORI: Singapore-Johor-Riau

SML: Sembawang Maritime Limited

SOE: Stat-owned Enterprise

SREZ: Subregional Economic Zone

S\$: Singapore Dollar

UNESCAP: United Nations Economic and Social Commission for Asia and the Pacific

VDR: Voyage Data Recorder

\$: United States Dollar

CHAPTER I:

INTRODUCTION

1.1 Introduction

On a sunny day, we can see the Riau Islands¹ clearly from the NUS Central Library as the distance between Singapore and Riau Islands is just 20km. The beginning of the 1970s saw Batam Island reach a population of approximately 6,000. In 2010, the “official” population reached as many as one million². Due to the “SIJORI Growth Triangle (GT)” program initiated in 1989³, the Riau’s landscape has changed significantly. More than 20 years have passed since the implementation of the GT program. Considering the hustle and bustle of Riau Islands, especially Batam Island, it is hard to imagine that the islands were once small fishing villages in the beginning of the 1970s. Due to this rapid development of the island, the GT program is generally regarded as a success model [see, for example, Thant, Tang and Kakazu (1998) and Lee (1991)].

¹ The Riau Islands comprise of Batam, Bintan, Karimun and their neighboring islands. Both “the Riau Islands” and “the Riau Archipelago” are used in the literature. In this paper, “the Riau Islands” is adopted, except in section 2.1.3 where “the Riau Islands Province” is discussed.

² Batam Indonesia Free Zone Authority (BIFZA)’s website (accessed in February 2014). It should be noted that there are many “unofficial” residents. However, as there are no other data on the population, the “official” number is used in this paper.

³ SIJORI Growth Triangle stands for Singapore–Johor–Riau Growth Triangle. Having been successful, it has spread to other parts of Indonesia and Malaysia, and is now known as Indonesia–Malaysia–Singapore (IMS) Growth Triangle. This is further discussed in the next chapter.

Ferry is the only means of transportation for passengers to reach the Riau Islands from Singapore and the Johor State in Malaysia (see Fig 1.1). The Riau Islands, comprising more than 800 islands, necessitate the use of ferries for business, holiday, homecomings and so on. Sea routes still dominate transportation in this area, although air routes are becoming more popular. Riau Islands function as the hub of sea transportation for distant and neighboring islands in Indonesia and neighboring countries. However, there is a lack of academic research on the ferry transportation in Riau Islands. It is usually perceived as simply an intermediary and does not apparently attract much interest as a subject of academic research.

This research offers a different perspective of the Riau Islands by making ferry transportation the research subject. By analyzing the correlation between the ferry transportation and the Growth Triangle, this research investigates how public sea traffic in this area has been facilitated by the ferry operators, and how the network has changed over the years. It argues that the progress of GT projects has promoted an extensive ferry network, and at the same time the evolution of the network has certainly played an important role in the regional development of the Riau Islands.

In particular this research focuses on the system of ferry companies for passengers, which services Riau Islands in Indonesia, including (1) international and (2) domestic routes. These include regular service lines in Riau Islands. International routes include the Riau Islands–Singapore routes and the Riau Islands–Johor State routes. The sea routes between Singapore and the Johor State are excluded in this research because the road transportation between them plays a greater role. The domestic routes are categorized into three types: (1) long, (2) middle, and (3) short distances. In this research, long- and middle- distances are defined in terms of a fixed route with a fixed price and timetable. The long-distance routes refer to routes between

Riau Islands and distant islands such as Sumatra. The middle-distance routes are routes within Riau Islands. On the other hand, a short-distance route is defined as a fixed route with a fixed price but without a timetable. This research focuses on (1) long- and (2) middle-distance routes.

As for deliverables, this research will contribute to a study of both the Growth Triangle (GT) and public sea transportation in Indonesia. The literature on GT since the 2000s seems to be less compared to the 1990s when the region enjoyed an investment boom. More than 20 years have passed since, but the GT as a foreign direct investment destination has not attracted researchers' attention recently. In addition, ASEAN has adopted "ASEAN Connectivity" in 2010 to enhance physical, institutional and people-to-people connectivity. Transport and transport agreements in ASEAN are included here⁴. Tracing the trajectory of ferry transportation in the Riau Islands thus far might contribute to the understanding of challenges other regions might face. At the conclusion of chapters III to V, changes in the networks are illustrated with "network figures" for a clearer understanding of the overall patterns and trends.

1.2 Background, Research Questions and Hypothesis

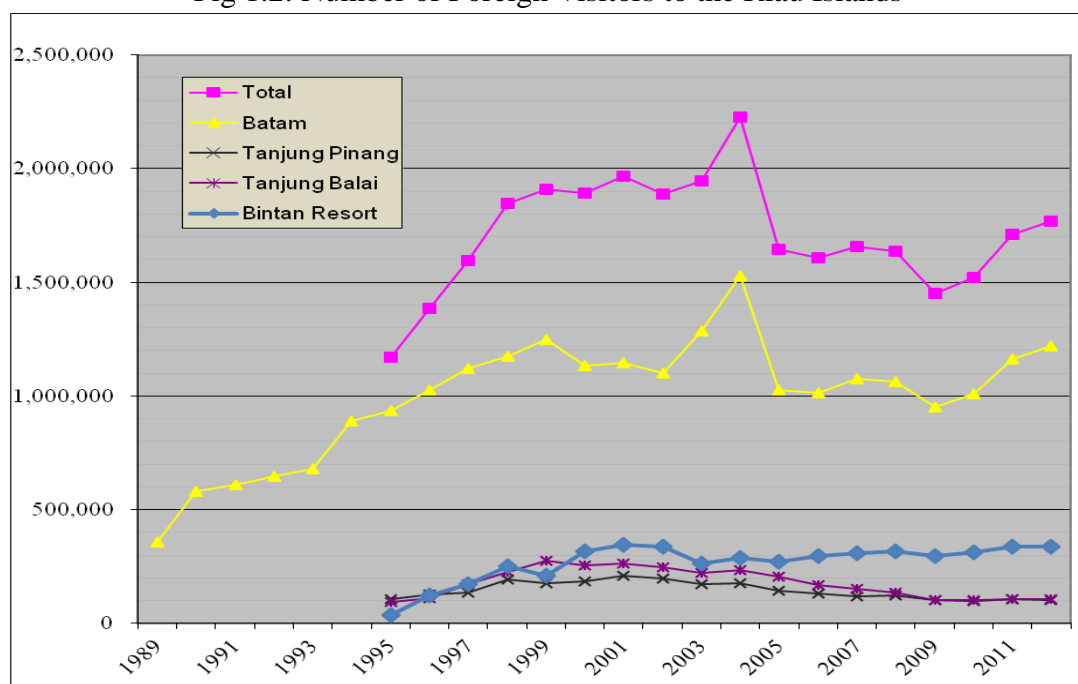
In this section, certain basic information is presented in order to facilitate the setting of research questions on ferry transportation in Riau Islands. Due to data limitations, I mainly focus on Batam Island based on available economic indicators such as the number of foreign visitors to Riau Islands, regional Gross Domestic Product (GDP) in Batam, the population in Batam and Bintan, and cumulative investment to Batam. These indicators are discussed as follows.

Firstly, the number of foreign visitor arrivals to Riau Islands represents the

⁴ ASEAN Secretariat, *Master Plan on ASEAN Connectivity*, Jakarta: ASEAN Secretariat, 2010, p.2. (ASEAN Secretariat's website, accessed in March 2014)

number of ferry passengers. Fig 1.2 shows that the number of foreign visitor arrivals in Batam had been increasing as a whole until the late 1990s, but it became volatile since. In 2012, it reached 1.2 million, which was less than that of 1999. This trend also applies to the other two ports: Tanjung Pinang in Bintan and Tanjung Balai in Karimun. The number of foreign tourists kept on increasing until the late 1990s but decreased thereafter. The number of foreign tourists in 2011 was less than half of the peak period. The exception was in Bintan Resort Area, located at the northern area in Bintan. The number of foreign tourists reached its peak in 2001, but it remained relatively stable since. Thus, the trend in the total number of foreign visitors essentially follows the one in Batam as it accounted for more than half of the total number. The difference was that the total number of foreign visitors was relatively stable at the beginning of 2000s.

Fig 1.2: Number of Foreign Visitors to the Riau Islands



*Statistics for Bintan Resort are available from 1995. The statistics for Tanjung Balai and Tanjung Pinang before 1995 were fragmentary.

Sources: Statistics Indonesia's website (Accessed in April 2014),

Kepulauan Riau in Figures (various years), *Riau in Figures* (various years),
and Batam Industrial Development Authority (BIDA),
Batam Indonesia: 20 years of Development, 1978-1998, BIDA, 1998, p.54.

Table 1.1 shows the number of foreign visitors as drawn in Fig 1.1. When divided into two periods, 1989-1998 and 1999-2012, the former recorded a rapid increase in the average annual percentage change, while the latter a slower growth. For example, the number of foreign visitors in Batam registered a high average annual expansion of 33.6% during the 1989-1998 period, but it posted only a 1.2% increase during the 1999-2012 period. A minus sign (▼), indicating a negative growth rate, was frequently observed in every port around Riau islands since 2000.

Table 1.1: Number of Foreign Visitors to the Riau Islands: (million and %)

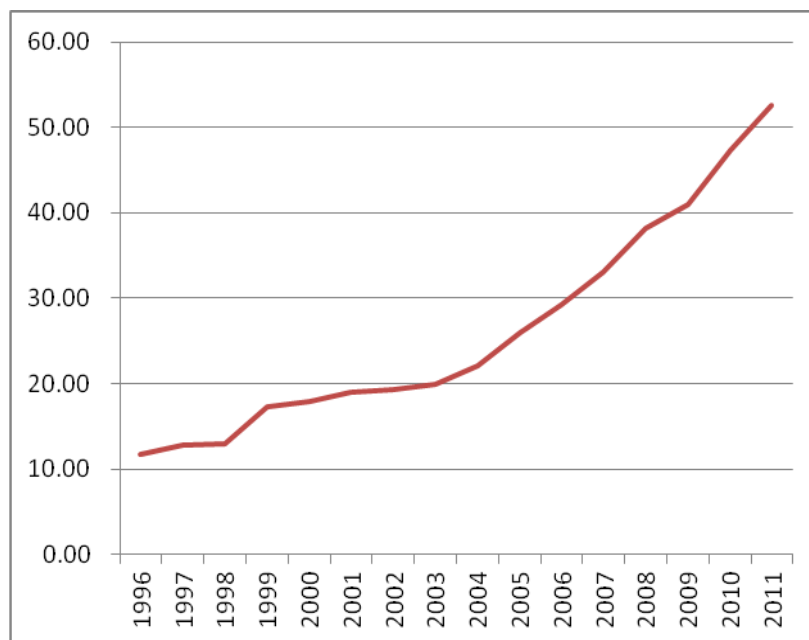
Year	Total	%*	Batam	%*	Tg. Pinang	%*	Tg. Balai	%*	Bintan Resort	%*
1989	0.36	---	0.36	---						
1990	0.58	61.1	0.58	61.1						
1991	0.61	5.1	0.61	5.1						
1992	0.65	6.5	0.65	6.5						
1993	0.68	5.0	0.68	5.0						
1994	0.89	31.0	0.89	31.0						
1995	1.17	31.5	0.94	5.1	0.11	---	0.09	---	0.04	---
1996	1.38	18.3	1.02	9.4	0.13	19.6	0.11	18.3	0.12	249.9
1997	1.60	15.2	1.12	9.3	0.14	6.8	0.17	54.2	0.17	38.1
1998	1.85	15.6	1.17	4.8	0.19	43.7	0.23	32.4	0.25	47.0
1999	1.91	3.3	1.25	6.4	0.18	▼9.5	0.27	20.8	0.21	▼17.1
2000	1.89	▼0.7	1.13	▼9.2	0.19	5.6	0.26	▼6.7	0.32	52.7
2001	1.97	3.8	1.15	1.0	0.21	12.4	0.26	2.6	0.35	9.7
2002	1.89	▼4.0	1.10	▼3.9	0.20	▼5.1	0.25	▼5.5	0.34	▼2.8
2003	1.94	3.1	1.29	16.7	0.17	▼12.7	0.22	▼11.1	0.26	▼21.8
2004	2.22	14.4	1.53	18.8	0.18	1.6	0.23	5.4	0.29	9.0
2005	1.65	▼26.0	1.02	▼32.9	0.14	▼18.6	0.21	▼11.4	0.27	▼5.7
2006	1.61	▼2.4	1.01	▼1.2	0.13	▼9.6	0.17	▼18.9	0.30	9.1
2007	1.66	3.3	1.08	6.4	0.12	▼7.9	0.15	▼8.9	0.31	4.5
2008	1.64	▼1.3	1.06	▼1.5	0.12	3.3	0.14	▼10.6	0.32	2.3
2009	1.45	▼11.3	0.95	▼10.4	0.10	▼17.0	0.10	▼25.4	0.30	▼6.3
2010	1.52	4.7	1.00	5.9	0.10	▼4.4	0.10	▼0.7	0.31	6.0
2011	1.71	12.4	1.16	15.3	0.11	8.4	0.10	3.5	0.34	7.5
2012	1.77	3.4	1.22	5.0	0.10	▼2.3	0.11	3.0	0.34	▼0.2
Average 1989-1998	0.74	37.6	0.61	33.6	0.14	23.4	0.15	35.0	0.14	111.7
Average 1999-2012	1.77	0.2	1.14	1.2	0.15	4.0	0.18	4.6	0.30	3.3
Average 1989-2012	1.26	18.2	0.88	16.8	0.15	0.8	0.18	2.4	0.27	22.4

* % change compared to the previous year

Source: see Fig 1.2

Secondly, an analysis of the IMS (Indonesia–Malaysia–Singapore)-GT scheme is based on the following logic: if the IMS-GT is successful, Batam GDP rises, and transportation links increase proportionately, which is being measured by passenger traffic carried by ferries from Singapore to Riau Islands. Due to the incessant flow of FDI, Batam GDP generally kept on increasing in these twenty years: from 0.08 trillion rupiah in 1988 to 13.01 trillion rupiah in 1998, and to 47.30 trillion rupiah in 2010. Since the 2000s the regional GDP in Batam has continued to rise annually (see Fig 1.3).

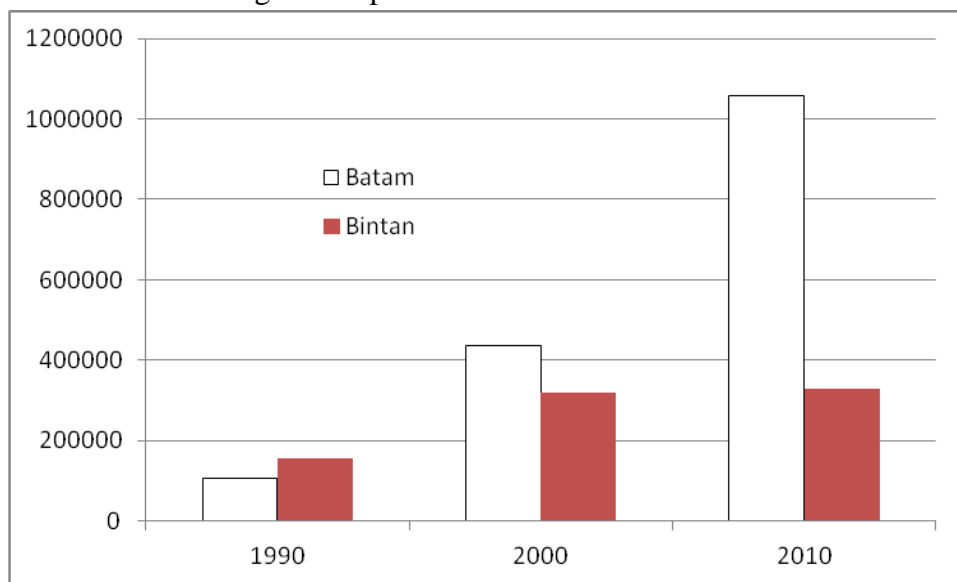
Fig 1.3: Regional GDP in Batam (current price, trillion rupiah)



Source: BIDA (1998: 57) and Batam Indonesia Free Zone Authority (BIFZA)'s website (accessed in February 2014)

The third point is related to the population in Batam and Bintan. It is predicted that transportation links increase proportionately as population increases. As the only means of transportation from Singapore and Johor State to Riau Islands is ferry, an increase in population contributes to an increase in the number of international ferry passengers. In the domestic routes, the number of passengers is also expected to increase for various reasons such as migration, business and homecoming due to an increase in population, although air routes also need to be considered. For more than 20 years, the population in Batam has been increasing constantly. It increased by approximately ten times from 0.11 million in 1990 to 1.06 million in 2010, while the population in Bintan increased steadily by approximately two times from 0.16 million in 1990 to 0.33 million in 2010 (see Fig 1.4)⁵. In 1990, the population in Bintan Island exceeded that of Batam, but in 2010, it was the other way around.

Fig 1.4: Population in Batam and Bintan

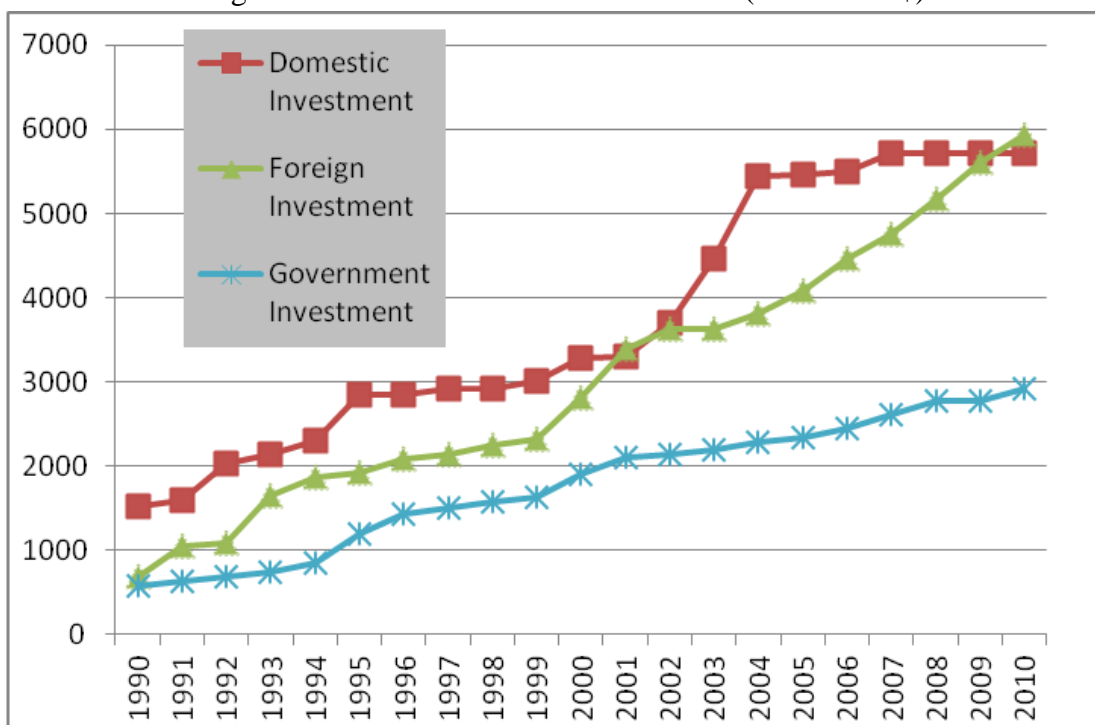


Source: BIFZA's website (Accessed in June 2014), *Riau Islands in Figures* (various years) and Lyons, Lenore and Michele Ford, "Where Internal and International Migration Intersect: Mobility and the Formation of Multi-Ethnic Communities in the Riau Islands Transit Zone", *International Journal of Multicultural Studies*, Vol.9, No.2, 2007, pp.240-242.

⁵ Bintan in 2010 is different from Bintan in 2000 and 1990 due to the decentralization (see section 2.1.3 for details). However, Lyons and Ford (2007) recompiled statistics according to the new local government boundaries. The number in 2010 also followed them.

The fourth point concerns the cumulative investment in Batam. There are three investment categories: domestic, foreign and government investment (see Fig 1.5). Although the increase in domestic investment since the mid-2000s is slow, the amount of foreign and government investments generally expanded annually in these twenty years. In particular, foreign investment increased steadily from the 2000s. During these 20 years, Batam attracted various types of investment almost constantly.

Fig 1.5: Cumulative Investment in Batam (Million US\$)



Source: BIDA (1998: 58-60) and BIFZA's website (Accessed in December 2013)

Having discussed the four economic indicators such as the rise in regional GDP, population and cumulative investment, but a declining trend in foreign visitors, I put forth the following research questions.

How have the ferry network and number of ferry trips in Riau Islands changed in the past 20 years? Considering the number of foreign visitors to Batam, did the

international ferry network in Riau Islands stop expanding in the 2000s? Or did it expand following the strong growth of Batam's regional GDP? Did ferry companies make adjustments by changing the number of ferry trips? In addition, are there any differences between domestic and international networks? The ferry networks and the number of ferry trips are selected as indicators because they clearly illustrate the changes in ferry transportation over the years.

As for the correlation between the ferry transportation in the Riau Islands and regional GDP, "in the development literature, transportation is usually considered indispensable for economic growth. This idea is treated as an axiom: more efficient transportation modes and networks lead to higher economic growth⁶". Therefore, it is argued that there is a correlation between the number of foreign visitors and regional economic development.

However, even though Batam's regional GDP kept on rising in the 2000s and transportation modes apparently became more efficient, the number of foreign visitors became volatile with an overall declining trend as observed in Fig 1.2 and Table 1.1. Kumar and Siddique claimed, "the effect of inconsistent policy measures at all levels of the bureaucracy is certainly seen vividly in the tourism data (from 2004 to 2009). Tourist arrivals have declined and also shown high variability. Visa requirements, fees and other bureaucratic processes that have been implemented at different times have acted as impediments to tourist arrivals. This has also been partly affected by security concerns in the region."⁷ In addition to political factors, this research tries to investigate other factors relating to ferry transportation.

Considering the points above with data analysis, the hypotheses are as follows:

⁶ Marks, Daan, *Accounting for Services: The Economic Development of the Indonesian Service Sector, ca. 1900-2000*, Amsterdam: Aksant Academic Publishers, 2009, p.92.

⁷ Kumar, Sree and Sharon Siddique, *Batam- Whose Hinterland: The Influence of Politics on Development*, Singapore: Select Publishing, 2013, p.13.

(i) For international ferry routes, the network and the number of ferry trips had expanded until around 2000 following the success of the Growth Triangle project. However, subsequently, they mostly maintained their networks by adjusting the number of ferry trips with a slightly declining trend due to the fluctuating number of visitors to the Riau Islands albeit with a corresponding increase in Batam's regional GDP, population and investment.

(ii) For domestic ferry routes, both the network and the number of ferry trips of the long- and middle-distance operators expanded since the beginning of the GT projects due to an increase in Batam's regional GDP, population in Batam and Bintan, and investment.

1.3 Research Methodology

This research consists of both literature survey and fieldwork. Literature survey relies on both primary and secondary research. Readings include books, journal articles, newspapers, statistics and official reports published by relevant government agencies in Indonesia and Singapore, by regional and international organizations like the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and publications by research institutes such as the Institute of Southeast Asian Studies (ISEAS). National, regional and related Indonesian organizations' statistics were obtained from books and websites such as Statistics Indonesia, Statistics of Kepulauan Riau, Statistics of Batam City, and Batam Indonesia Free Zone Authority (BIFZA). Statistics on Singapore include relevant data from the websites of the Department of Statistics, Singapore Tourism Board, and other agencies. Data and literature collections include traffic data, ferry companies data, government policies and specialized analyses in English and Indonesian.

Fieldwork was conducted in three sites: Singapore, Jakarta, the Riau Islands in Indonesia and the Johor State in Malaysia from July 2013 until November 2013. As for research interviews, interviewees included officials and employees from government, related organizations and ferry companies. In addition, I also visited libraries and statistical offices to collect relevant data and statistics. In Singapore, I conducted interviews with several ferry companies and collected information from NUS and ISEAS libraries during the period of two months from end-July 2013. In Jakarta, I visited the National Library of Indonesia, the headquarters of Statistics Indonesia, the headquarters of shipping companies and the Ministry of Transportation during the first week of November 2013. In the Riau Islands, the fieldwork involved data collection and interviews with ferry companies. Visits to libraries and branches of Statistics Indonesia were also carried out to collect statistics and related information for almost two months from mid-September to first week of November 2013. As several ferry operators in Indonesia do not have websites, I visited them on site. In the Johor State, I conducted a fieldwork in a smaller scale compared to the one in Singapore and the Riau Islands. For example, I visited almost all ports in Johor State and asked several questions with staff there in a casual manner. As these ports are near from Singapore, I made a day trip there. Interview questions were related to the development of the ferry network in parallel with their development, the reason for passengers increase or decrease, their relationships with the government, the impact of external factors such as the Asian Financial Crisis and the political instability in Indonesia, future plans, and so on.

During the fieldwork, I accumulated a variety of experiences. In Singapore, almost half of my requests for an interview were declined. However, I fortunately came across an industrial magazine which deals with the ferry transportation in the

world. It occasionally features the ferry industry in Singapore. In addition to the fieldwork, they played a big role in this research. In the Riau Islands, the interviews were the main source to obtain information as the number of documents was limited. I mainly conducted the interviews with employees from ferry companies. I tried to approach the interviewees who were middle management class with at least one-year working experience there. In some cases, I asked a ticket seller at a port because the person had the longest working experience there. One of the challenges was to trace the history of operators who have already left the market. In that case, employees from other operators and newspaper articles supplemented it when possible. These fieldworks, which have never been done before, are one of the contributions of this thesis.

This thesis applies methodological and analytical tools from the disciplines of economics and geography for two reasons. Firstly, the Department of Southeast Asian Studies where I conducted this research encourages multi-disciplinary approach. Secondly, transport studies are multidisciplinary in character⁹. Transportation analysis requires various disciplines.

1.4 Structure of the Thesis

Chapter I describes the introduction, background, research questions, hypothesis, research methodology and structure of the thesis.

Chapter II reviews the literature on the effects and challenges of the Indonesia–Malaysia–Singapore Growth Triangle (IMS–GT) and how it has changed in the past twenty years. It also reviews the literature on ferry transportation in Indonesia.

Chapters III and IV investigate the international ferry transportation in the Riau

⁹ Hoyle, Brian and Richard Knowles, “Transport Geography: An Introduction”, in Brian Hoyle and Richard Knowles (eds.), *Modern Transport Geography*, 2nd rev, New York: Wiley, 1998, p.5.

Islands, particularly focusing on the Riau Islands–Singapore routes and Riau Islands–Johor State routes. Chapter III discusses the overall picture of the international ferry transportation in terms of its trends and patterns since the 1980s.

Chapter IV discusses the contributory factors for the trends and patterns analyzed in chapter III from various perspectives, using both quantitative and qualitative methods. These factors include the role of the Singapore, Indonesian and Malaysian governments, the role of international regulation in the ferry transportation, the impact of the IMS-GT and external factors affecting the ferry industry. Three ferry operators are also discussed as case studies.

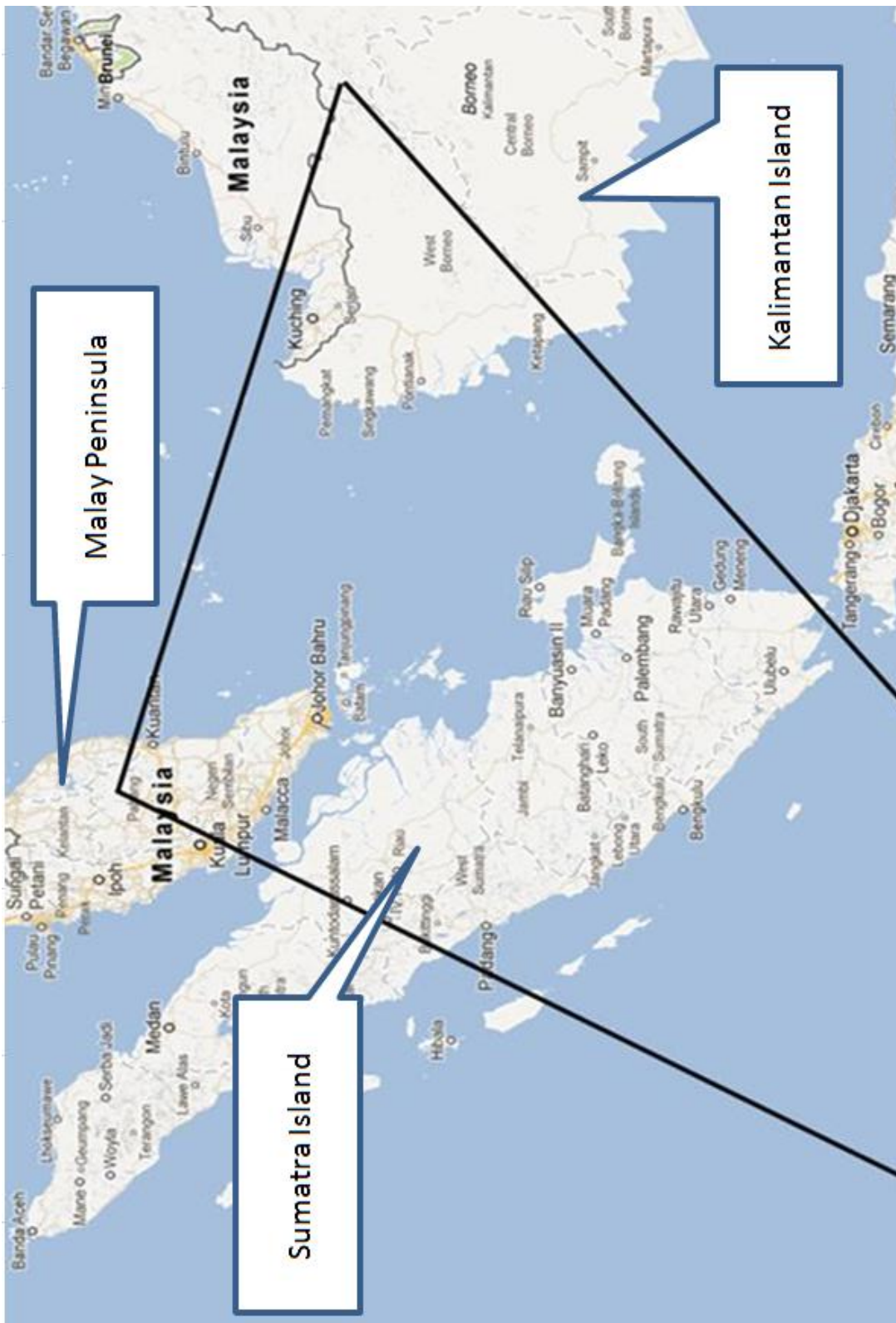
Chapter V investigates the domestic ferry transportation in the Riau Islands using the same set of analyses as employed in chapter IV. These include its trends and patterns since the 1990s, the role of the Indonesian government in the ferry transportation, the impact of the IMS-GT and external factors affecting the ferry industry. Two state-owned enterprises are also discussed as case studies.

Chapter VI presents the conclusion.

CHAPTER II:
LITERATURE SURVEY ON
INDONESIA–MALAYSIA–SINGAPORE GROWTH TRIANGLE
(IMS-GT) AND THE FERRY TRANSPORTATION
IN THE RIAU ISLANDS

This chapter surveys the literature on the Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT, sections 2.1-2.3) and ferry transportation in Riau Islands (section 2.4). The survey on the IMS-GT includes its historical background, each country’s motivation (Indonesia, Malaysia and Singapore), its development, progress and challenges. In addition, the IMS-GT is analyzed in light of the role of four factors: economic complementarity, geographical proximity, government’s support and foreign direct investment (FDI). Subsequently, the literature on the IMS-GT and ferry transportation is discussed. Finally, based on the analysis of the literature, a conclusion is drawn out.

Fig 2.1: Map of the Indonesia-Malaysia-Singapore Growth Triangle



Source: Google Map (Labels prepared by the author)

2.1 The Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT)

2.1.1 Historical Background

The official legal definition of IMS-GT is an area which includes eight provinces (Bengkulu, Jambi, Lampung, Riau, Riau Islands, South Sumatra, West Kalimantan and West Sumatra) in Indonesia, four states (Johor, Melaka, Negeri Sembilan and Pahang) in Malaysia, and Singapore (see Fig 2.1). However, a common and loose definition refers to just an area of Riau Islands in Indonesia, Johor State in Malaysia and Singapore. The whole area is 25.8 thousand square kilometers with a population of 9.8 million in 2010 (see section 2.1.3). Various names have been used to denote this Growth Triangle: JSR (coined by Dr. Habibie, the former Indonesian Minister of State for Research and Technology), the Johor–Singapore–Riau Growth Triangle (popular in Singapore), Nusa Tiga (used by the former Johor Chief Minister Tan Sri Muhyiddin Mohamed Yassin)¹⁰, and SIJORI Growth Triangle (the first two letters of the three words: **S**ingapore, **J**ohor and **R**iau).

This Growth Triangle was proposed in 1989 by Goh Chok Tong, then Deputy Prime Minister of Singapore, and it was the first GT in Southeast Asia. Following this, official statements of support were released in June 1990 by the then Indonesian President, Soeharto, and the then Malaysian Prime Minister, Mahathir Mohamad. The GT idea took shape two months later when the then Singaporean Prime Minister Lee Kuan Yew and Soeharto signed an economic agreement to develop the Riau Islands, especially Batam and Bintan¹¹. As part of the agreement, Singapore also benefited from Indonesia by signing a fifty-year water agreement in June 1991.

¹⁰ Naidu, G, “Johor- Singapore- Riau Growth Triangle: Progress and Prospects” in Myo Thant, Min Tang and Hiroshi Kakazu (eds.), *Growth Triangles in Asia: A New Approach to Regional Economic Cooperation*, Manila: Asian Development Bank, 1998, p.232.

¹¹ Juliastuti, Anna R, *Growth Triangles in Southeast Asia: A Comparative Study of the Johor-Singapore- Riau Growth Triangle and the Indonesian- Malaysia- Thailand Growth Triangle*. Unpublished Master’s Thesis, The Department of Southeast Asian Studies, National University of Singapore, 1998, p.28.

This Growth Triangle idea did not appear out of a vacuum. In fact, the idea was mooted in the 1970s, by the then Indonesian Minister of State for Research and Technology, B. J. Habibie, who was responsible for the development of Batam. He first discussed the concept of interlinked development of the area with the then Singapore Prime Minister, Lee Kuan Yew in 1979. He proposed that, like balloons, Singapore and other economies of the area could only continue to expand without bursting by being linked to each other. He further proposed an arrangement similar to those that link the Benelux countries, with free entry and exit of people, goods, and services¹². Theoretically, his idea seems to be similar to the Subregional Economic Zones (SREZs), one of the various forms of economic integration and cooperative groupings in the Asia-Pacific region (Chia and Lee, 1993: 226-229). In retrospect, Habibie's development plan was way in advance of his time.

As originally envisaged, the zone was to cover only Batam, Johor and Singapore. However, under an Indonesian presidential decree issued in July 1990, the entire Riau Islands officially became part of the SIJORI-GT, with subsequent development plans for the triangle including Batam, Bintan and Singkep (Naidu, 1998: 233). In the latter half of 1994, the Indonesian, Malaysian and Singapore government formalized the SIJORI-GT by signing a formal memorandum of understanding (MOU) on the GT. The governments agreed that a private sector umbrella body would be created to coordinate business activities within the SIJORI-GT which has also been officially renamed the Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT)¹³. This was the formal formation of the IMS-GT.

¹² Chia, Siow Yue and Lee Tsao Yuan, "Subregional Economic Zones: A New Motive Force in Asia-Pacific Development" in C. Fred Bergsten and Marcus Noland (eds.), *Pacific Dynamism and the International Economic System*, Washington, DC: Institute for International Economics, 1993, p.240.

¹³ Thant, Myo, "Overview", in Myo Thant and Min Tang (eds.), *Indonesia- Malaysia- Thailand Growth Triangle: Theory to Practice*, Manila: Asian Development Bank, 1996, p.7.

In short, Indonesian motivation for economic cooperation with Singapore brought about the beginning of this GT formation. The idea was proposed approximately ten years before its formal formation, and the area of growth triangle has since expanded over the years.

2.1.2 Motivation of Each Country

In this section, each country's motivation is reviewed in order to understand the foundation of IMS-GT.

In Singapore, the overall cost of doing business had risen sharply as a result of two-and-a-half decades of rapid economic growth. The constraints of limited labor and land had resulted in sharp increases in the cost of labor and property. Although the recession from 1985 to 1986 slowed down the rate of cost increases, there had once again been an acceleration since then. These were exemplified by the increase of nominal average earnings, property prices, foreign worker levy and so on. As a result, firms had to decide whether to upgrade their activities in Singapore, re-distribute their labor intensive operations elsewhere, or do both¹⁴.

Singapore's need for water was also an important consideration vis-à-vis the relationship between Singapore and Malaysia. It bought 546 million liters of water a day from Johor under an agreement signed in 1962 with Malaysia. An agreement signed on 24 November 1990 entitles Singapore to increase its water purchase from Johor, but it had to pay S\$201.9 million for the land on which to build a dam¹⁵. Singapore needed to diversify its water resources. This was Singapore's other motivation for the formation of IMS-GT.

¹⁴ Kumar, Sree and Lee Tsao Yuan, "A Singapore Perspective" in Lee Tsao Yuan (ed.), *Growth Triangle: The Johor- Singapore- Riau Experience*, Singapore: Institute of Southeast Asian Studies, 1991, pp.4-7.

¹⁵ *Far Eastern Economic Review*, "Search for a Hinterland", Jan 3, 1991, p.34.

In Malaysia, the Johor State had distinct ambitions for its economic development at the time of the GT formation. It aimed to overtake Penang and Selangor State as the most industrialized state in Malaysia in the next ten years. They thought economic links with Singapore and the Riau Islands would enhance this plan, and Johor State officials said prospects had never been better for their development¹⁶. At that time, the Johor State was the third most industrialized state in Malaysia, typically accounting for about 10-15 per cent of Malaysian's GDP. Approved investments in Johor suffered a decline in 1985-86 due to recession. However, the Malaysian government has adopted a liberalization policy since then. As a result, investments in Johor increased six-fold from RM440 million in 1986 to RM2.7 billion in 1989¹⁷. For Johor State, the motivation to be part of the GT was economic development.

For Indonesia, its motivation lay in its policy to develop Batam, a small fishing village with a population of six thousand at the beginning of the 1970s. It was PT. Pertamina, a state-owned oil and gas enterprise, which changed the island from a fishing village to a town. Pertamina established its base in Batam in 1966. Subsequently, it was designated as a logistic and operational base for oil and gas industries engaged in exploration and exploitation by Presidential Decree No.65 in 1970. With this decree, Pertamina started to develop Batam. In 1973, the Batam Investment Development Authority (BIDA) was established as the central government-level agency overseeing the development of the island, and the whole of Batam was to be developed into an industrial area with Presidential Decree No.41 in 1973. However, due to Pertamina's financial crisis¹⁸, its role as an oil base was reduced. In addition, it was forced to withdraw its development plans because of its

¹⁶ *Far Eastern Economic Review*, "Johor Plays the Angles", Jan 3, 1991, p.36.

¹⁷ Ng, Chee Yuen and Wong Poh Kam, "The Growth Triangle: A Market Drive Response?" *Asia Club Papers*, No.2, 1991, p.139.

¹⁸ PT. Pertamina almost went bankrupt due to a large amount of debt in May 1975.

deteriorating financial state. Instead, the Indonesian government took over the development, and Batam was transformed into an industrial zone since the late 1970s.

There were also policy changes related to accounting and shipping in 1984 and 1985 which led to the evolvement of Batam as a logistics base by forcing foreign oil contractors and related entities to use the island as a base instead of Singapore. A related national policy of utilization of domestically produced goods also followed. Consequently, there was an inflow of domestic and foreign investments. However, falling oil prices and the slump in the oil business reduced the viability of Batam.

As mentioned in section 2.1.1, it was B.J. Habibie who brought up the joint development plan in Batam. By the late 1980s, Singapore also became interested in Batam as a possible extension of its manufacturing hinterland. The meeting between the then Prime Minister Lee Kuan Yew and the then President Suharto in 1989 heralded the merging of Indonesia–Singapore interests and agenda for the joint development of Batam. The breakthrough which catalyzed Singapore’s interest in reaching an agreement to develop the Batam hinterland was Presidential Decree No.53 in 1989, whereby industrial estates could be leased and managed by private companies. The 1990 bilateral agreement called for the establishment of Batamindo, a Singapore Jurong-style industrial estate (Kumar and Siddique, 2013: 42-43).

Considering the three countries’ motivations, it was Indonesia that initiated the project, and their initial target was Singapore. Singapore apparently joined the project because the time was right. Subsequently, Malaysia, especially the Johor State, followed suit.

2.1.3 Development, Progress and Challenges

Development and Progress

The framework and the area of IMS-GT have expanded since 1989. In 1994, trilateral agreements were formally signed and the name Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT) was adopted. The first Ministerial Meeting was held in March 1996, and the geographic area of the IMS-GT was expanded to include three additional states in Malaysia (Melaka, Negeri Sembilan and Pahang) and one province in Indonesia (West Sumatra). At the second Ministerial Meeting held in mid-1997 in Johor Bahru, Indonesia proposed that five more provinces be included in the IMS-GT (Bengkulu, Jambi, Lampung, South Sumatra, and West Kalimantan)¹⁹. The area expanded to include not only a part of the Malay Peninsula but also a part of Sumatra and Kalimantan Island.

Singapore's role was actually as a prime mover which activated the development in its hinterlands. A lot of Singaporean companies and multinational corporations (MNCs) operating in Singapore relocated their land- and labor-intensive industries to the Johor State and Riau Islands. Besides, the IMS-GT can also be seen as a launching pad for Singapore's internationalization strategy. The redistribution of industrial and services activities to Johor and Riau gave local entrepreneurs the opportunity to understand different business and cultural norms prevalent within the region (Juliastuti, 1999: 38). Chia and Lee (1993: 245) concluded on the survey by the Singapore Manufacturers' Association of its members in 1992 as follows: "Although biases in responses may be expected, the survey results do point to significant relocation of labor-intensive activities offshore". These labor-intensive industries had relocated outside Singapore.

¹⁹ Thant, Myo, "Overview" in Myo Thant, Min Tang and Hiroshi Kakazu (eds.), *Growth Triangles in Asia: A New Approach to Regional Economic Cooperation*, Manila: Asian Development Bank, 1998, pp.9-10.

In Malaysia, it is difficult to determine the effect of the IMS-GT on Johor's economic growth because the relations between Singapore and Johor have been established before the GT agreement (Juliastuti: 1999, 48). However, as mentioned in section 2.1.2, the inflow of FDI increased in the late 1980s due to policy changes.

Table 2.1: Selected Indicators of the IMS-GT in 1990

	Johor	Singapore	Riau Islands	Total
Area (sq km)	18,914	639	3,300*	22,853
Population (million)	2.2	2.8 (1991)	0.1** (1991)	5.1 (approx.)
Per capita GDP (\$)	3,594	12,940	500** (1988)	
GDP at current price (\$ million)	4,300	34,600	45** (1988)	38,945 (approx.)

Source: Chia and Lee, 1993: 239.

* Includes only Batam, Bintan, Bulan, Singkep, Rempang, and Galang Island

** Batam only

Table 2.2: Selected Indicators of the IMS-GT in 2010

	Johor	Singapore	Riau Islands	Total
Area (sq km)	19,210	712	5,829(i)	25,751
Population (million)	3.2	5.1	1.5(i)	9.8 (approx.)
Per capita GDP (\$)	6,631	45,640	4,692(ii)	
GDP at current price (\$ million)	22,300	231,700	7,900(ii)	261,900 (approx.)

Sources: Department of Singapore Statistics' website (accessed in April 2013),

Data calculated from *Kepulauan Riau in Figures* (2011) and

Department of Statistics, Malaysia's website (accessed in April 2013).

i: Includes only Batam City, Tanjung Pinang City, Karimun Regency and Bintan Regency.

ii: Riau Islands Province only

Three points for comparison need to be discussed here: regional GDP, Johor's economic position in the Malaysian economy, and tourism flows. Firstly, compared to the level in 1990, GDP and GDP per capita in Johor increased five times (\$22,300 million) and nearly two times (\$6,631) respectively in 2010 (see Tables 2.1 and 2.2). Moreover, GDP growth in Johor State recorded 9.3 percent, exceeding the entire area of GDP growth (7.2%) in 2010. Secondly, Johor occupies the third largest share of

national GDP (9.5%), following Selangor (23.0%) and Wilayah Persekutuan Kuala Lumpur (15.2%). Johor was placed third in the manufacturing sector, contributing 12.3% of total manufacturing output. In terms of regional GDP, the ambition of the Johor State to become the most industrialized state has not been realized yet. However, it plays an important role in the Malaysian economy.

Thirdly, tourism flows are also large and increasing between Singapore and Johor (Juliastuti, 1999: 48-50). 3.78 million tourists stayed at least overnight and 16.72 million foreign day-trippers visited Johor State in 2011²⁰. Although the breakdown of these 3.78 million tourists is not available, nearly 20 million foreigners visited Johor State in 2011. On the other hand, Riau Islands received 1.7 million foreign tourists in 2011. Thus, Johor State received at least ten times the number of foreign tourists to Riau Islands. One can see the greater potential in the Johor State, and thus one can understand the strong relationship between Singapore and Johor.

Recently, the Iskandar Project in the Johor State has attracted much public attention. The project began in 2005 when the Federal Government asked Khazanah Nasional Berhad to conduct a feasibility study for the development of a special economic zone in South Johor. Subsequently, the Iskandar Development Region was officially launched in 2006. There are five flagship zones in the area²¹. Its target is obviously residents and tourists from Singapore. New residential areas are being developed and other facilities such as Puteri Harbour and Lego Land have already opened in Nusa Jaya, one of the newly developed areas. The federal government is heavily involved in this project similar to the role of the Indonesian government in the IMS-GT.

²⁰ *New Straits Times*, "JOHOREANS, Flash Your Best Smiles. Brush up on Your Direction-giving Skills Because There May Be More Tourists and Visitors Trying to Find Their Way around Our State," May 11, 2012. (Digital Source)

²¹ Khazanah Nasional Berhad, *Iskandar Regional Project Authority & Iskandar Development Region: Information Pack*, Feb 23, 2007, p.3. (Digital Source)

In Indonesia, the landscape of Riau Islands has changed significantly. Batam, Bintan and Karimun Islands (BBK) are now discussed consecutively. The population in Batam (0.99 million) increased significantly, forming more than half of the total population in Riau Islands Province (1.76 million) in 2011. It is followed by Bintan (0.20 million in Tanjung Pinang City and 0.15 million in Bintan Regency) and Karimun Regency with the population of 0.22 million (*Kepulauan Riau in Figures: 2012*). As discussed in section 1.2, the population in Bintan (0.16 million) exceeded the population in Batam (0.11 million) in 1990, but in 2011, Batam's population far exceeded that of Bintan. From this, one can understand Batam's rapid development since the 1990s.

In terms of investments, total cumulative investment to Batam until 2011 was \$14.74 billion, broken down as follows: government investment \$2.99 billion (20%), foreign investment \$6.02 billion (41%) and domestic investment \$5.73 billion (39%). The largest industry is electronic and computer-related components and parts manufacturing, mainly due to abundant cheap labor supply. In 2007, the three largest manufacturing firms by sector were electronics (30%), minerals and metals (19%) and plastics (14%)²². Batam has attracted more than 1,400 foreign enterprises and 10,000 small and medium enterprises in total, and they are providing employment for more than 330,000 of the local workforce in 2012. There are 22 industrial estates in the island²³. Compared to the 1990 level, regional GDP (\$7,900 million) and GDP per capita (\$4,692) also increased significantly in Riau Islands, mainly driven by Batam (see Tables 2.1 and 2.2).

Bintan has accumulated a total (realized) of foreign investment of about \$8.3

²² Wong, Poh Kam and Ng Kwan Kee, *Batam, Bintan and Karimun- Past History and Current Development towards Being a SEZ*, National University of Singapore: Lee Kuan Yew School of Public Policy, August 2009, p.16. (Digital Source)

²³ BIFZA's website (accessed in July 2014)

billion by 2005, with the industrial sector contributing 91%, followed by the tourism sector at 8%. About 10% of the Lobam Industry Zone (Bintan Industrial Estate) is dedicated to 14 garment companies and 18 electronics companies, through economic collaborations between Singapore, Malaysia and Indonesia. The total investment in Lobam reached approximately \$74 million, providing 13,558 jobs to 13,313 Indonesians and 245 foreigners. The northern coastal part is an area exclusively for tourists. Seven hotels, two resorts and two international golf courses serve the growing tourist population (Wong and Ng, 2009: 17). Compared to Batam, the employment of locals by these industries is relatively small, but the IMS-GT brought about significant changes in some areas in Bintan.

In Karimun, the leading industry with the highest contribution to its economic growth is the agriculture sector, accounting for a 33% share in 2006. The trading, hotel and restaurant sectors contributed 26% to the economic growth in Karimun. The shipyard industry in Karimun has been thriving with six companies currently providing ship repair and ship building services (Wong and Ng, 2009: 18). It was developed due to the projects of the IMS-GT (see section 2.2). Sea sand business also plays an important role in Karimun. As of 2001, 70-80% of exported sea sands in Riau Province were from Karimun and Batam. They were exported to Singapore for reclamation²⁴. Since the agriculture sector is a leading industry on the island, the IMS-GT did not contribute significantly to Karimun's economy.

In order to attract more foreign investment, several policies were implemented since the 2000s in order to strengthen the economic relationship between Singapore and the Riau Islands. Firstly, the formation of the USA–Singapore Free Trade

²⁴ Fukao, Yasuo, "The Structure of Local Politics at the Era of Post-Soeharto: A Case Study of Separation Movement for the Riau Islands Province" in Matsui Kazuhisa (ed.), *Decentralization in Indonesia*, Chiba, Japan: Institute of Developing Economies, Japan External Trade Organization, 2003, p.99. (In Japanese)

Agreement (FTA) was an important event for the Riau Islands. With the push for the establishment of more FTAs, Singapore has included the Integrated Sourcing Initiative (ISI) clause into its FTAs to benefit the BBK region. This ISI clause was included in the USA–Singapore FTA which came into effect in January 2004. By including the ISI into the FTA, 266 types of IT and medical-related products produced in offshore production bases such as Batam, can be treated as having originated from Singapore. Hence, these products were eligible for tariff-free importation into U.S. (Wong and Ng, 2009: 13). As a result, an additional 25 Singaporean companies set up factories in Batam in 2003, attracted by tariff advantages in the soon-to-be-launched USA-Singapore FTA²⁵.

Secondly, changes in the status of the economic zone are discussed. In January 2009, Batam, Bintan and Karimun Islands were made a Free Trade Zone (FTZ) and given Port Zone status with operations beginning April 2009. FTZ is defined as “an area within the jurisdiction of the Republic of Indonesia which is exempted from import duties, sales tax, value-added tax, tax on luxury goods and any customs duties”²⁶. Subsequently, in September 2009, the Indonesian House of Representatives finally approved the Law on Special Economic Zones (SEZs). The approval was the follow-up to the signing of the Indonesia–Singapore framework agreement in 2006 which sought economic cooperation to transform Batam–Bintan–Karimun (BBK) islands into SEZs and draw additional investments from Singapore (Wulandari, 2012: 15). However, according to Kumar and Siddique (2013: 54), the former Minister of Commerce Mari Pangestu admitted that this plan received only lukewarm response from international investors and there had been little job creation. Following the status change, Batam Indonesia Free Zone Authority (BIFZA) was established in place of

²⁵ Wulandari, Sri, *Batam Free Trade Zone*, Hong Kong: Asia Monitor Research Centre, 2012, p.14. (Digital Source)

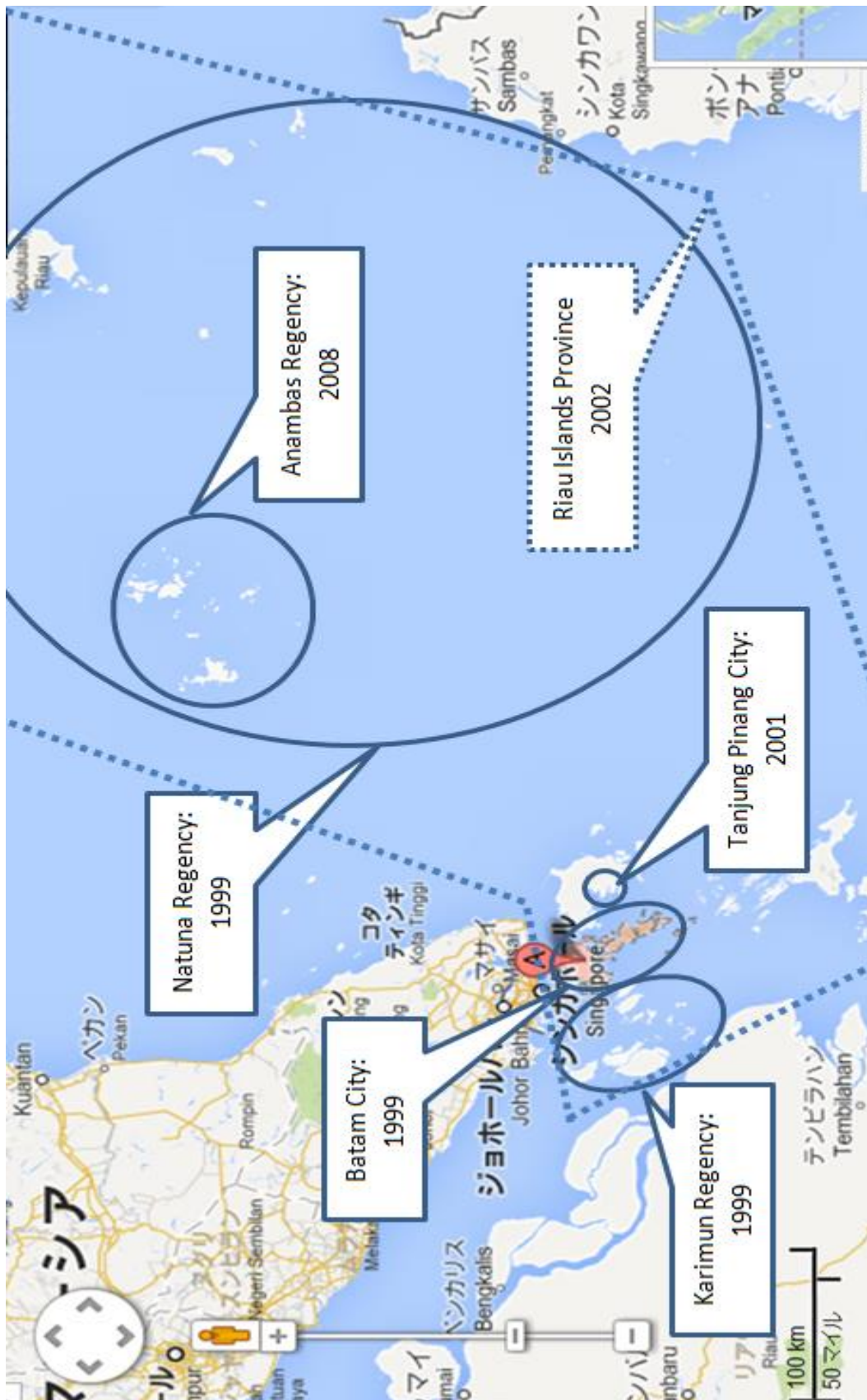
²⁶ Riau Islands FTZ’s website (accessed in February 2014)

BIDA in 2009. Simultaneously, similar FTZ zone management bodies were established in Bintan and Karimun and these three bodies are under the umbrella of the FTZ management body, chaired by the governor of Riau Islands Province.

Moreover, political power was decentralized, and the BBK and the Riau Islands underwent changes after the fall of the Soeharto regime in 1998. In the city and regency level, Batam was promoted to city status from the Riau Islands Regency in 1999 (see Fig 2.2). Karimun and Natuna were also granted independent regency status. Subsequently, Tanjung Pinang was promoted to a city from the Riau Islands Regency in 2001. In 2002, the Riau Islands Regency was legally split off as a separate province from the Riau Province²⁷. As a result of several newly-established local governments, new positions such as a governor and a mayor were also created.

²⁷ Due to stagnation of the legal procedure, Riau Islands Province became practically an independent province in 2004. Fukao (2003) discussed the historical confrontation between the land and islands part in Riau Province as one of the reasons for the formation of Riau Islands Province. See also related laws such as Law No.25 in 2002 for the formation of Riau Islands Province, Law No.53 in 1999 for the formation of Batam City, Karimun and Natuna Regency, and Law No.5 in 2001 for the formation of Tanjung Pinang City.

Fig 2.2: Map of Newly-established Local Governments in the Riau Islands since 1998



Source: Google Map (Labels prepared by the author)

Challenges

However, the IMS-GT faces several challenges. The first challenge is the ethnic exclusivity of the jointly developed projects in Riau and, to a lesser extent, in Johor. Most of the joint development efforts by the private sector in both Riau and Johor are being led by ethnic Chinese businesses with their counterparts from Singapore. This has raised questions relating to the sharing of the economic pie with other communities—particularly the *pribumis* in Indonesia and the *bumiputras* in Malaysia²⁸.

Secondly, from a political perspective, a case in point is the Malaysian Government's view of the close relationship between Johor and Singapore. While Singapore is a sovereign state, Johor is a part of the Federation of Malaysia, and any development in Johor has to be seen within the context of overall Malaysian development. Johor's aggressive drive for its industrial growth to match that of Singapore has therefore been viewed with some dismay by the federal government (Kumar, 1998: 220). In recent years though, the federal government is heavily involved in the Iskandar Project.

The Indonesian government was heavily involved in the projects in the Riau Islands from the onset. The central government and BIDA cooperated closely to implement various projects in the island. During the Soeharto era, B.J. Habibie served as the BIDA's head from 1978 to 1998 and this tie-up worked well to implement central government's policies. The current challenge is decentralization which affects the decision making process in Riau Islands. For example, there exists bickering between BIFZA and the Batam municipal government concerning the overlapping of administrative authority (Wong and Ng, 2009: 11).

Thirdly, trilateral cooperation among Indonesia, Malaysia and Singapore was

²⁸ Kumar, Sree, "Johor- Singapore- Riau Growth Triangle: A Model of Subregional Cooperation," in Myo Thant, Min Tang and Hiroshi Kakazu (eds.), *Growth Triangles in Asia: A New Approach to Regional Economic Cooperation*, Manila: Asian Development Bank, 1998, p.220.

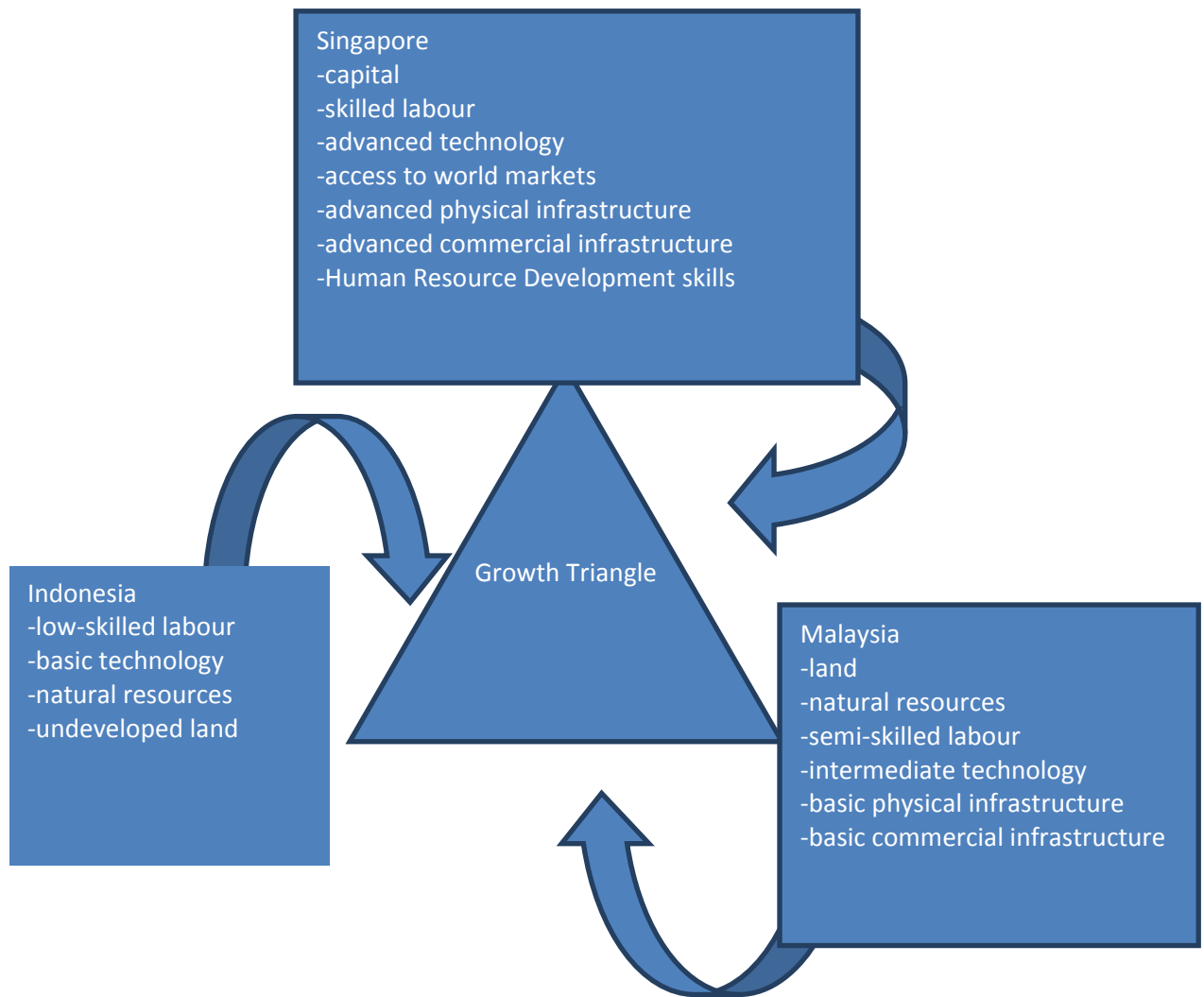
brisk in the 1990s. However, it is difficult to see evidence of trilateral cooperation since the 2000s. Wulandari (2012: 6) acknowledged the importance of the IMS-GT as a concept of regional development, but it was not sustained for long, as Malaysia tried to improve her electronic industry to compete with Singapore. In addition, Johor State has paid more attention to the Iskandar Malaysia Project since the 2000s. On the other hand, Riau Islands are more interested in FTZ and SEZs. Indonesia and Malaysia pay more attention to their bilateral relationship with Singapore. The framework still exists, but the concept of “IMS-GT” that required trilateral relationship might have become a thing of the past.

2.2 Role of Economic Complementarity, Geographical Proximity, Government’s Support and FDI

I refer to four concepts related to the IMS-GT in this part: economic complementarity, geographical proximity, government’s support and FDI, which are claimed as the factors of GT’s success. Juliastuti (1999) argued for the role of the first three factors. In addition, Thant and Tang (1996) argued that GT was the outcome of two forces. One was a desire for regional economic cooperation among Asian countries, and the other was the large inflows of FDI. The role of FDI is discussed here due to its importance in the IMS-GT.

Economic complementarity: In the IMS-GT, comparative advantage is an important concept. In this GT, Singapore has elements such as skilled labor, capital and advanced technology, while Batam has unskilled/low-skilled labor, basic technology and natural resources (see Fig 2.3). Johor has comparative advantage such as land, semi-skilled labor and intermediate technology. Each country/region complements each other.

Fig 2.3: The Triangle of Complementarity in the IMS–GT



Source: Debrah, Yaw A., Ian McGovern and Pawan Budhwar, “Complementarity or Competition: The Development of Human Resources in Southeast Asian Growth Triangle: Indonesia, Malaysia and Singapore”, *International Journal of Human Resource Management*, Vol.11, No.2, 2000, p.319.

Table 2.3: Factor Costs in Johor, Singapore and Batam in 1989 (\$)

	Johor	Singapore	Batam
Land (per sq m)	4.08	4.25	2.30
Labor (per month)			
Low-skilled	150	350	90
Semiskilled	220	420	140
Skilled	400	600	200

Sources: Mann, Richard I, *Batam: Step by Step Guide for Investors*, Toronto: Gateway Books, 1990,p.50 and Ahmad, Mubariq, Apr 23-24, 1992, “Economic Cooperation in the Southern Growth Triangle: An Indonesian Perspective” paper presented at the Conference on Regional Cooperation and Growth Triangles in ASEAN, organized by the National University of Singapore, referred by Wulandari (2012: 12).

Table 2.3 shows the factor costs in Johor, Singapore and Batam in 1989, when the concept of GT was introduced. Comparative advantages arising from differences in factor endowments were complementary rather than competitive within three countries. In 1989, low-skilled labor cost \$90 a month in Batam, \$150 in Johor, and \$350 in Singapore. Singapore, with its developed infrastructure and skill base, was attractive to multinational corporations (MNCs) for their capital-intensive and high technology operations, while labor-intensive and spatially driven operations were attracted to Johor or Batam (Kumar, 1998: 192-194). This structure still remains today judging from these extensive industrial estates in Batam.

However, it is frequently pointed out that Johor–Riau Islands links are weak. Planned and actual investment flows from Indonesia to Johor are minimal. The same situation holds for trade linkages. In addition, entrepreneurs in Johor and Malaysia are not as ready for the regionalization of their activities. It is unlikely that investment and trade linkages between Johor and Riau will develop in the near future, due, for example, to their lack of complementarity (Thant, 1998: 9)²⁹.

Geographical proximity: One of the key determinants in the success of the IMS-GT is the close proximity of Singapore, the Johor State, and Riau Islands to one another [see, for example, Chia and Lee (1993), Kakazu (1995) and Thant et al. (1998)]. Johor State and Singapore are linked by two causeways. More than ten ferry routes connect between the Riau Islands and Singapore, and between the Riau Islands and Johor State. Several of these routes take less than an hour (see Chapter III for further discussion). Consequently, close proximity of the three participants is a key factor in facilitating industrial redistribution, contributing to low travel and transportation costs, easy monitoring and control of production, speedy transshipment

²⁹ This book was published in 1998, but this perspective still holds true in 2014.

of intermediate and final goods, and reduction of transaction and information costs (Naidu, 1998: 237).

Government's support: In the IMS-GT, each government strongly supports the development projects. The formation of this triangle would not have occurred had it not been for policy shifts on the part of Indonesia and Malaysia. Of particular importance was the move toward investment liberalization by both countries, which led to the growth of economic linkages with (and investment flows from) Singapore. In Batam, policies such as the relaxation of foreign equity ownership and the realization of investment applications processing were carried out. In Malaysia, the Investment Coordination Act had proved to be an impediment to both domestic and foreign private investment by the mid-1980s. Since 1986, however, the government has formulated a more liberal policy framework (Naidu, 1998: 237-239). Therefore, cooperation among three countries advanced in the 1990s with trilateral agreements in 1994 and ministerial meetings in 1996 and 1997 (see section 2.1.3 in detail).

Foreign Direct Investment (FDI): In the IMS-GT, substantial investment was implemented since the 1990s. The case of Riau Islands is discussed here. Singapore–Indonesian investment cooperation in Riau Islands has centered on four flagship projects: Batamindo Industrial Park (BIP), Bintan Industrial Estate (BIE), Bintan Beach International Resort (BBIR) and Karimun Marine and Industrial Complex (KMIC)³⁰. These projects contributed significantly to attract FDI. Firstly, even though BIP was the first to be developed, it was the eighth industrial estate to be authorized by BIDA. It is a \$400 million Singapore–Indonesia joint venture owned by PT. Batamindo Investment Corporation. Two Singapore government–linked corporations held 40% of the entire share and Indonesian partners held the rest. This is

³⁰ Peachey, Karen, Martin Perry and Carl Grundy-Warr, *The Riau Islands and Economic Cooperation in the Singapore-Indonesian Border Zone*, Durham, England: International Boundaries Research Unit, 1998, p.16.

an industrial park for mainly export-oriented manufacturers and 70 MNC manufactures are creating jobs for 60,000 workers in the park³¹. Secondly, BIE opened mainly for electronics and garment manufacturing in 1994. It provides more than 13,000 jobs (see section 2.1.3). Thirdly, BBIR, opened in 1994, was developed by PT. Bintan Resort Corporation. It was the holding company for a consortium of investors which includes Indonesia's Salim Group and several corporations in Singapore³². More than 0.3 million international tourists visit the area annually. Fourthly, KMIC as well as PT. Karimun Sembawang Shipyard, officiated in 1997, is an integrated industrial facility constructed at an estimated cost of S\$90 million for marine and engineering activities. It is especially suited to businesses in the ship repair and shipbuilding, engineering and fabrication works, and maritime and logistics sectors³³.

2.3 Summary: The Growth Triangle Perspectives

Since the late 1980s, the literature on IMS-GT mainly focused on this area as a target of FDI [For example, Lee (1991), Thant, Tang and Kakazu (1998), and Ng and Wong (1991)]. The IMS-GT was frequently regarded as a success model of GT in the literature. Researchers' opinions on its success differ slightly, but they mainly agree on three points: economic complementarity, geographical proximity and the government's role. As the industrial estates in the IMS-GT faced competition with industrial estates in other parts of Indonesia and other regions since around the late 1990s, it became less popular in the literature. Consequently, the literature about the IMS-GT seems to have decreased since the 2000s.

Instead, other related literature appeared in the 2000s. In economic development literature, economists and consultants shifted their interest to other topics such as the

³¹ Sembcorp Industries' website (accessed in February 2014)

³² BBIR is currently operated by PT. Bintan Resort Cakrawala under Gallant Venture Ltd.

³³ Sembcorp Industries' and Sembawang Shipyard's website (accessed in February 2014)

effects of Special Economic Zone (SEZ) in Batam, Bintan and Karimun Island [see, for example, Wong and Ng (2009), and Toh and Ng (2009)]. Batam's political and economic dilemma between Singapore and Indonesia was also investigated [Kumar and Siddique (2013)]. When comparing the BBK Islands, the literature on IMS-GT is mostly concentrated in Batam as it attracted the most FDI. On the other hand, other scholars such as sociologists paid attention to the negative effects that the IMS-GT brought about. Chou and Wee (2002) criticized the IMS-GT from a perspective of ethnic minority in Riau Islands. Wulandari (2012) investigated the plight of workers and the labor movement in Batam. Workers, ordinary people and women in Riau Islands, who travel between Singapore and Indonesia, also attracted researchers' interest as the unintentional impacts of the IMS-GT [see, for example, Ford and Lyons (2006) and Lyons and Ford (2007)].

Among the literature above, there is little research on the ferry transportation. While air transportation in Singapore and cross-border transport links between Singapore and the Johor State were well-researched [see, for example, Chin (2001) and Barter (2006)], research on the ferry transportation is less popular. If any, it usually ends up with a description in several sentences to explain how the Riau Islands are near from Singapore. The number of foreign tourists to the Riau Islands by ferry is occasionally discussed to demonstrate their popularity as a tourist area. However, further research is required because the Riau Islands apparently function as the hub for distant and neighboring islands in Indonesia and neighboring countries, similar to Singapore's Changi Airport which functions as the regional hub of international air transportation. Therefore, my research on the IMS-GT has changed to focus on the ferry transportation in the area.

2.4 A Perspective on the Sea Transportation in the Riau Islands

As this research focuses on the Riau Islands, the literature review on sea transportation covers mainly Indonesia and to a lesser extent, Singapore. Indonesia, with more than 17,000 islands, has the most number of islands in the world. For this reason, “as an island nation, Indonesia is heavily dependent upon shipping for its internal communications. The efficiency of interisland shipping is therefore a vital matter³⁴.”

The literature on sea transportation primarily focuses on national matters, not regional ones. *Departemen Perhubungan* (=Department of Transportation, 2007) covered the background on public transportation in Indonesia. It offered basic information on inland waterways, ferry and sea transport. When sea transportation is discussed, the necessity to develop inter-island shipping, particularly for remote islands, is frequently stressed. For example, UNESCAP (1999) suggested improvement in transport services for poverty alleviation [see also Hoyle, Leinbach, Smith and Spencer (1998)]. Dick (1987 and 2008) researched the changes of the related laws and the regulations in Indonesia. For instance, Dick (2008) dealt with the key economic regulations in the new Law 2008/17 on Shipping and judged their potential impact. State-owned enterprises are also investigated in the national context [*Pusat Pengkajian dan Pengembangan Kebijakan Kawasan Asia Pasifik dan Afrika* (=Centre of Policy Analysis and Development for Asia-Pacific and African Regions, 2011) for PT. ASDP Ferry Indonesia and Rutz and Coull (1996) for PT. PELNI]. Although the literature above is not directly related to the Riau Islands, there are several perspectives that also hold true relating to the ferry transportation in the Riau Islands.

Industrial magazines, newspaper articles and operators’ annual reports are also

³⁴ Dick, Howard, “Interisland Shipping: Progress, Problems and Prospects”, *Bulletin of Indonesian Economic Studies*, Vol.21, No.2, 1985, p.95.

useful in this research. *Fast Ferry International* features the fast ferry industries in Singapore approximately every five years, mainly focusing on operators in Singapore. *Bandar Media*, an Indonesian journal, covers maritime topics in Indonesia. Though fragmentary, newspaper articles such as *The Business Times* (Singapore) and *The Jakarta Post* (Indonesia) also occasionally shed light on the subject. The annual reports of ferry operators and their parent companies reported on the ferry market and their challenges (see, for example, *Sembawang Maritime Limited* and *Penguin Boat International Limited* annual reports). As they mainly report their bright sides, we need to critically review them.

Two articles are used as models for this research: Rutz and Coull (1996) and Colombijn (1996). Rutz and Coull examined the development of inter-island and passenger shipping, focusing on the improvements in the transport system since 1981. Although they studied the whole area of Indonesia as well as long-distance passenger shipping and geography, his methodology is adopted here because he investigated how the ferry network in Indonesia expanded since 1950s. Information which he utilized such as history, ship type, trunk and feeder routes, and the development of routes are also useful for this research. I also adopt Colombijn's methodology because he analyzed how the transport network has developed in West Sumatra from pre-colonial times to today, focusing on political factors. Even though his researched area and modes of transportation are different, his emphasis on political factors is a useful method.

2.5 Conclusion

The Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT) is an area which includes eight provinces in Indonesia, four states in Malaysia and Singapore. The idea

of the Growth Triangle was proposed in Singapore in 1989. Subsequently, official statements of support were released by the three political leaders in their respective countries in 1990. It was Indonesia that proposed the GT idea approximately ten years earlier before its formal formation. They initiated the project and their initial target was Singapore. Singapore apparently joined the project because the time was right. Subsequently, Malaysia, especially Johor State, followed suit. The area of the growth triangle has expanded over the years.

Each country joined the IMS-GT because of their respective motivations. For Singapore, an increase in the overall cost of doing business and its need for water were imminent issues. For Malaysia, the Johor State had distinct ambitions for its economic development. For Indonesia, its motivation lay in its policy to develop Batam.

The role of and trajectory in each country was also different. In Singapore, its role was actually as a prime mover which activated the development in its hinterlands. Singaporean and multinational corporations benefited from the IMS-GT by relocating their land- and labor-intensive industries to the Johor State and the Riau Islands. In Malaysia, it is difficult to determine the effect of the IMS-GT on Johor's economic growth because of the established relationship between Singapore and Johor. The Iskandar Project in the Johor State has also recently attracted public attention.

In Indonesia, the landscape of the Riau Islands has changed significantly. Due to the massive inflow of foreign direct investment (FDI), foreign as well as small and medium enterprises were providing employment for more than 330,000 workers in 2012. Twenty-two industrial estates had been established. FDI flowed into Bintan Island mainly to Bintan Industrial Estate and Bintan Beach International Resort. FDI in Karimun was limited. Since the 2000s, several policies such as the inclusion of the Integrated Sourcing Initiative (ISI) clause into the USA–Singapore Free Trade

Agreement (FTA) and the grant of the Free Trade Zone status in Batam, Bintan and Karimun (BBK) Islands were implemented.

However, the IMS-GT faces several challenges such as ethnic exclusivity, the relationship between the central and local governments in Malaysia and Indonesia, and weakening trilateral cooperation among Singapore, the Riau Islands and Johor State.

The role of the four concepts related to the IMS-GT was discussed next. Firstly, the economic complementarity in the IMS-GT remains the same. Singapore, Johor State and Riau Islands complement each other, excepting the weak relationship between the Johor State and the Riau islands. Secondly, geographical proximity contributed significantly to the success of the IMS-GT. Thirdly, the three governments strongly support the development projects in the IMS-GT. Fourthly, substantial investment was implemented in the IMS-GT since the 1990s. In the Riau Islands, Singapore–Indonesian investment cooperation has centered on four flagship projects.

In the literature, the IMS-GT attracted researchers' attention in the late 1980s and the 1990s. In the 2000s, researchers shifted their interests from trilateral relationship to the bilateral relationship between Singapore and the Riau Islands. Among them, little is discussed with the ferry transportation as the subject. On the other hand, as seen from the literature on sea transportation in Indonesia, literature directly related to ferry transportation in the Riau Islands is also limited because it primarily discusses national matters and remote islands especially in the eastern part of Indonesia. Thus, articles from industrial magazines and newspapers shed more light on the overall picture.

The literature survey revealed that the literature directly related to this research is limited. However, several lessons and the background of this research can be learnt from this literature. This research tries to adopt an integrated approach of the two

perspectives cited: the IMS-GT and sea transportation in Indonesia.

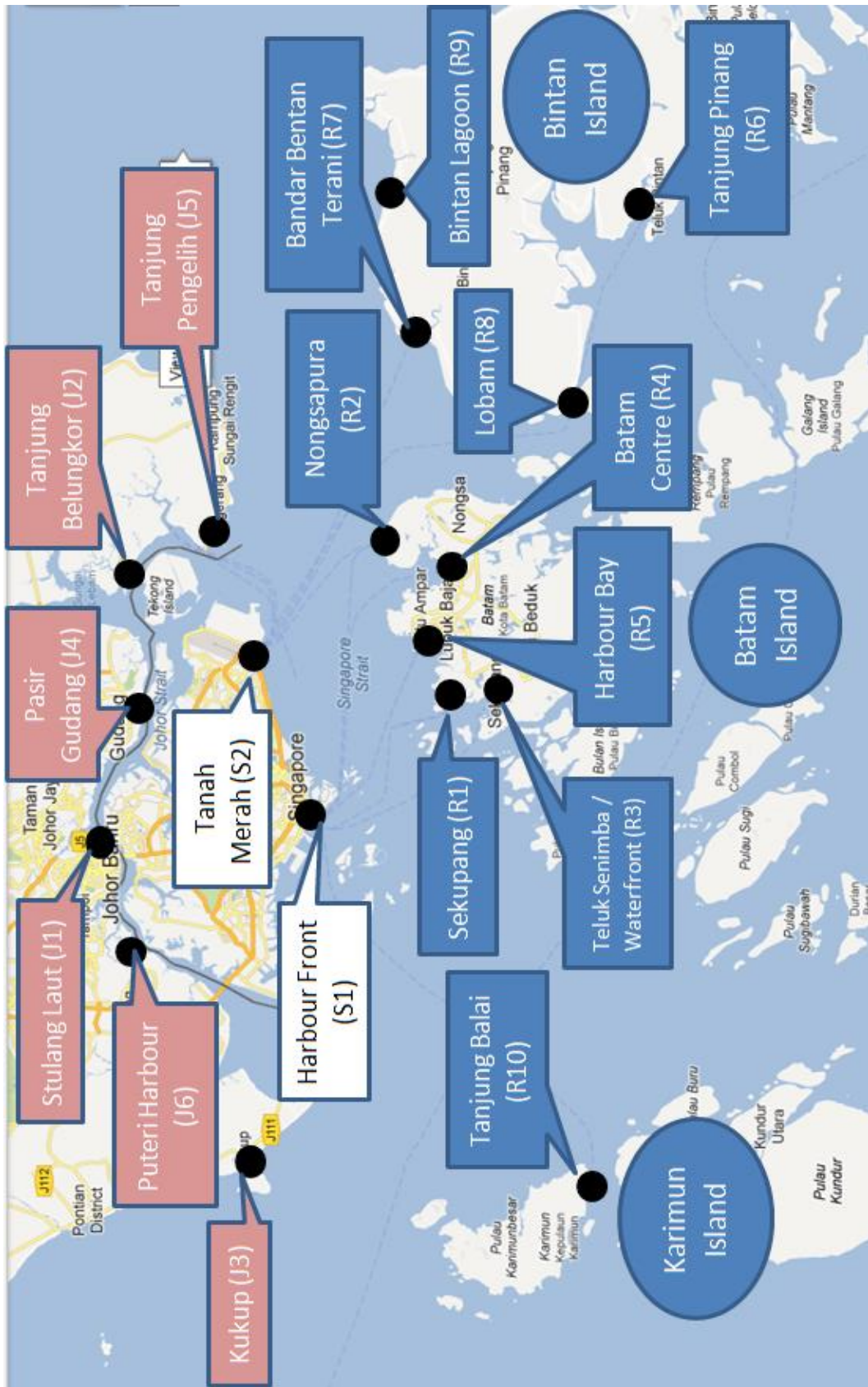
CHAPTER III:
THE PICTURE: TRENDS AND PATTERNS OF
THE INTERNATIONAL FERRY TRANSPORTATION
IN THE RIAU ISLANDS

This chapter investigates the international ferry transportation in the Riau Islands, especially Batam, Bintan and Karimun Islands, in terms of its trends and patterns divided into four periods: the 1980s and before, the 1990s, the 2000s, and the current situation. The Riau Islands–Singapore routes are investigated in these four periods, while the Riau Islands–Johor State routes are analyzed for the period since the 1990s because most of the ports in Johor State opened then.

3.1 Introduction

This section focuses on the international routes and ports in Singapore, the Riau Islands (Indonesia) and the Johor State (Malaysia). In total, eight ports in Singapore and the Johor State serve ferry routes to ten ports in the Riau Islands. In Singapore, there are two international passenger ports that connect Singapore with the Riau Islands: Harbour Front (S1) and Tanah Merah (S2) [see Fig 3.1]. There are six international passenger ports that connect the Johor State with the Riau Islands: Stulang Laut (J1), Pasir Gudang (J4), Kukup (J3), Puteri Harbour (J6, see Fig 3.2), Tanjung Pengelih (J5) and Tanjung Belungkor (J2). In the Riau Islands, there are ten international ports in three islands: five ports in Batam, four ports in Bintan and one port in Karimun.

Fig 3.1: International Ports in the Johor State (6), Singapore (2) and the Riau Islands (10)



Source: Google Map (Labels prepared by the author)

In the Riau Islands, the ports in Batam are: Batam Centre (R4), Sekupang (R1), Harbour Bay (R5), Teluk Senimba/Waterfront (R3) and Nongsapura (Nongsa, R2, see Fig 3.3). The first three ports cater to all visitors and the last two ports are mainly for resort tourists. Batam Centre is located in the area where BIFZA and the Batam Municipal Office are located. Sekupang is located at the northern tip of Batam. Harbour Bay is located near the city area, Nagoya. Both Waterfront and Nongsa are located in the resort area. The former is situated in the northeast of the island and the latter is in the south of Sekupang.

Fig 3.2: Puteri Harbour Port in the Johor State (J6)



Source: Author's collection

Fig 3.3: Nongsapura Port in Batam (R2)



Source: Author's collection

The ports in Bintan are: Tanjung Pinang (R6), which is for all visitors, Bandar Bentan Terani (BBT, R7) and Bintan Lagoon (R9), that are mainly for resort tourists, and Lobam (R8), which is exclusively for business travelers. Tanjung Pinang, situated in the south of the island, is the provincial capital in the Riau Islands Province. BBT and Bintan Lagoon are situated in a resort area which covers the north of Bintan. Lobam exists inside the Bintan Industrial Estate in the northwest of the island. The port in Karimun is Tanjung Balai, located in the southeast of the island.

There is an extensive ferry network in the region. Eight companies, mostly headquartered in Singapore, operate the international ferry routes between Singapore and the Riau Islands with more than 100 daily return trips. Fast ferries with 150-300 seats each ply along these routes (see Fig 3.4). On the other hand, more than ten operators, mostly headquartered in Indonesia, ply between the Riau Islands and Johor State. There are more than 30 daily return trips along these routes. Fast ferries with 50-150 seats each ply along these routes (see Fig 3.5). In total, there are more than 130 daily return trips for both routes.

Fig 3.4: A Ferry between the Riau Islands and Singapore



Source: Author's collection

Fig 3.5: A Ferry between the Riau Islands and the Johor State

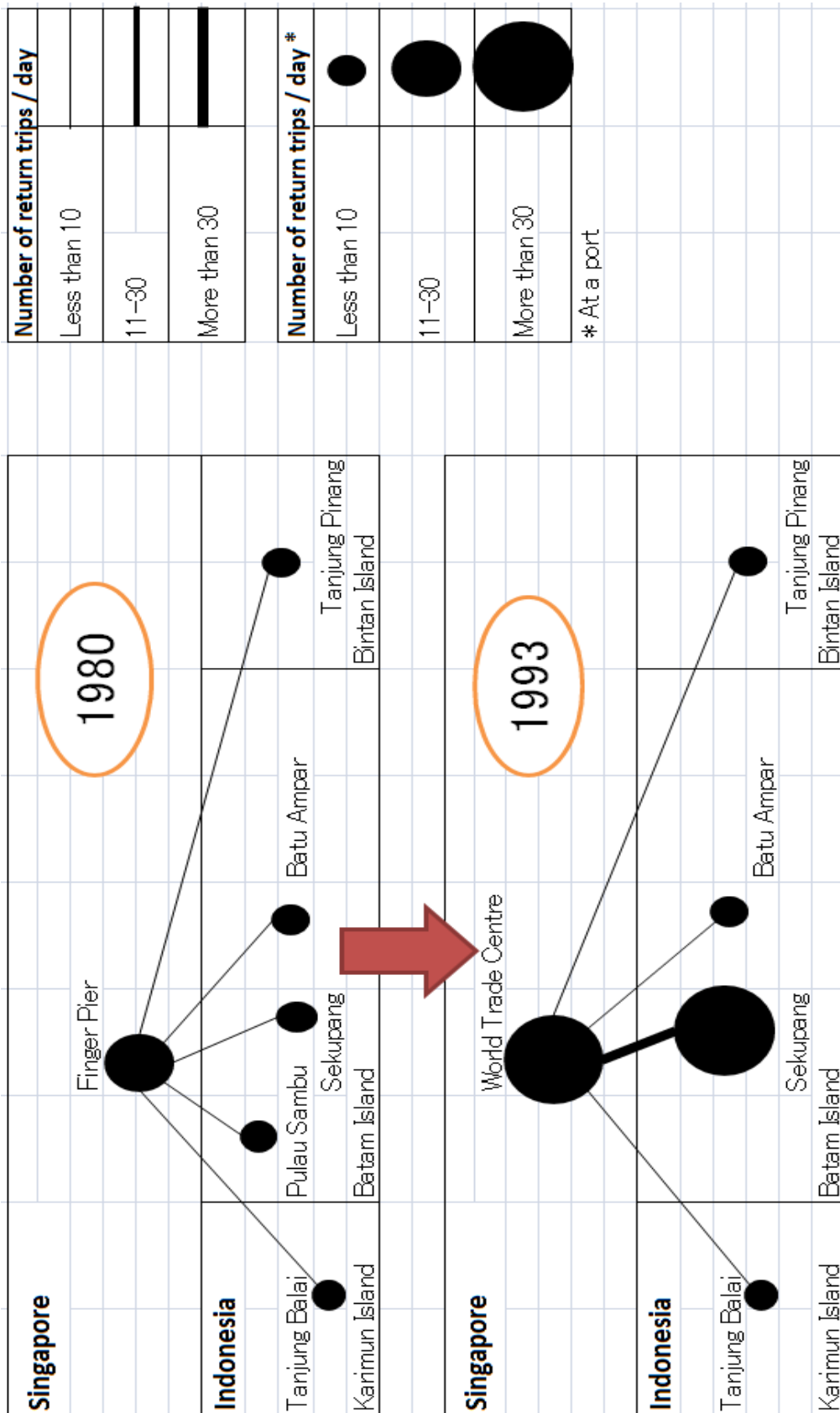


Source: Author's collection

Using these ferries, the distribution of foreign tourists' arrivals in 2012 is as follows: Batam (1.22 million), the Bintan resort area (0.34 million) and Tanjung Pinang (0.10 million) in Bintan, and Tanjung Balai (0.11 million) in Karimun [Statistics Indonesia's website, accessed in March 2014]. On the other hand, Indonesians returned to Indonesia via Batam (0.87 million), Tanjung Balai (0.13 million) and Tanjung Pinang (0.09 million) in 2010 (*Riau Islands in Figures: 2011* and Batam Port Corporation: Author's collection). Batam is the biggest entry point for both foreigners and Indonesians.

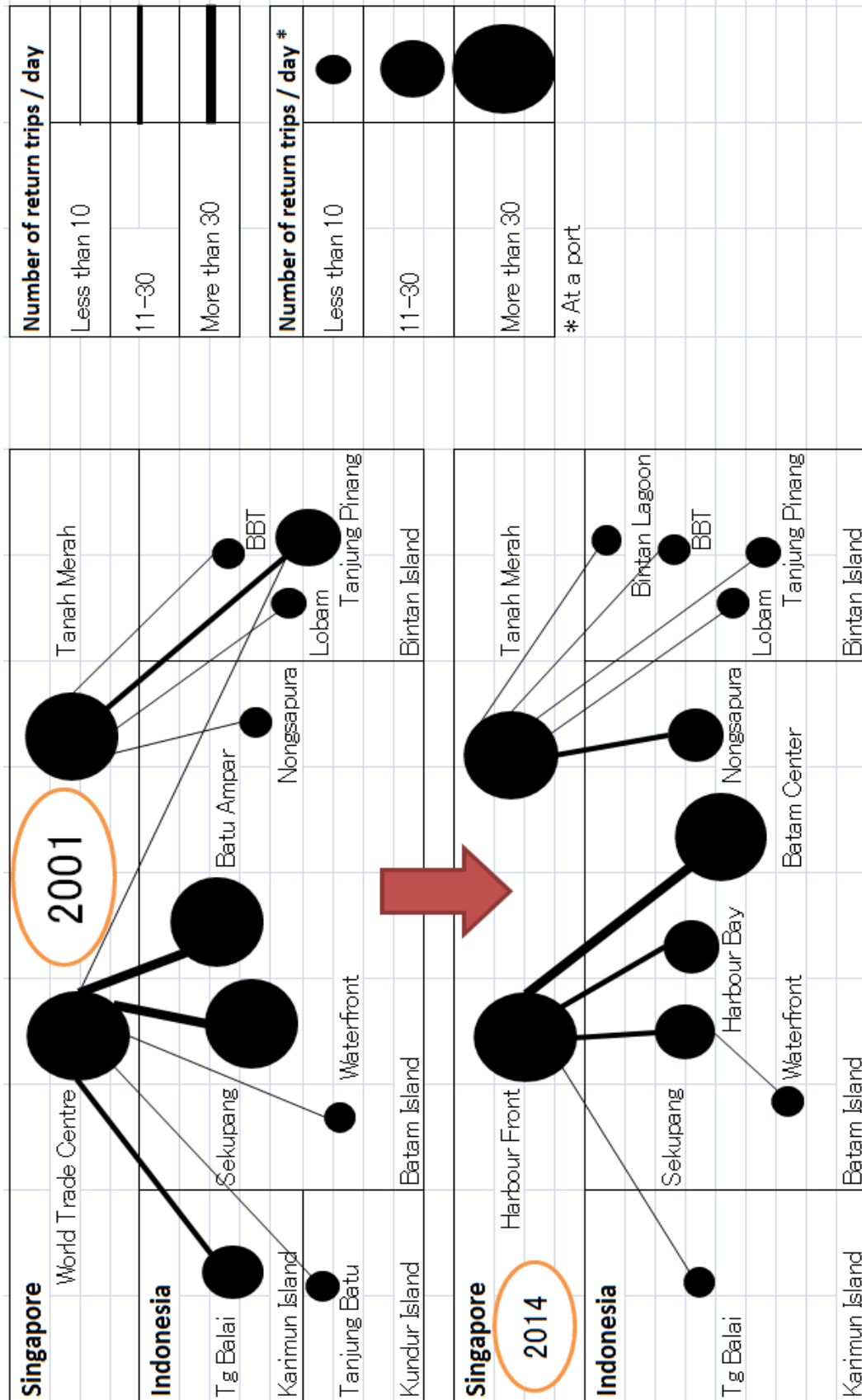
Based on information collected and interviews during my fieldwork, Figures 3.6, 3.7 (between the Riau Islands and Singapore) and 3.8 (between the Riau Islands and Johor State) were drawn to determine the changes in the international ferry network in Riau Islands. The periods in each figure were selected to understand the general trends in each decade. Therefore, they indicate neither the peak nor bottom period. In the next section, the trends and patterns in the network and the number of trips are discussed in four periods.

Fig 3.6: The international ferry network in 1980 and 1993



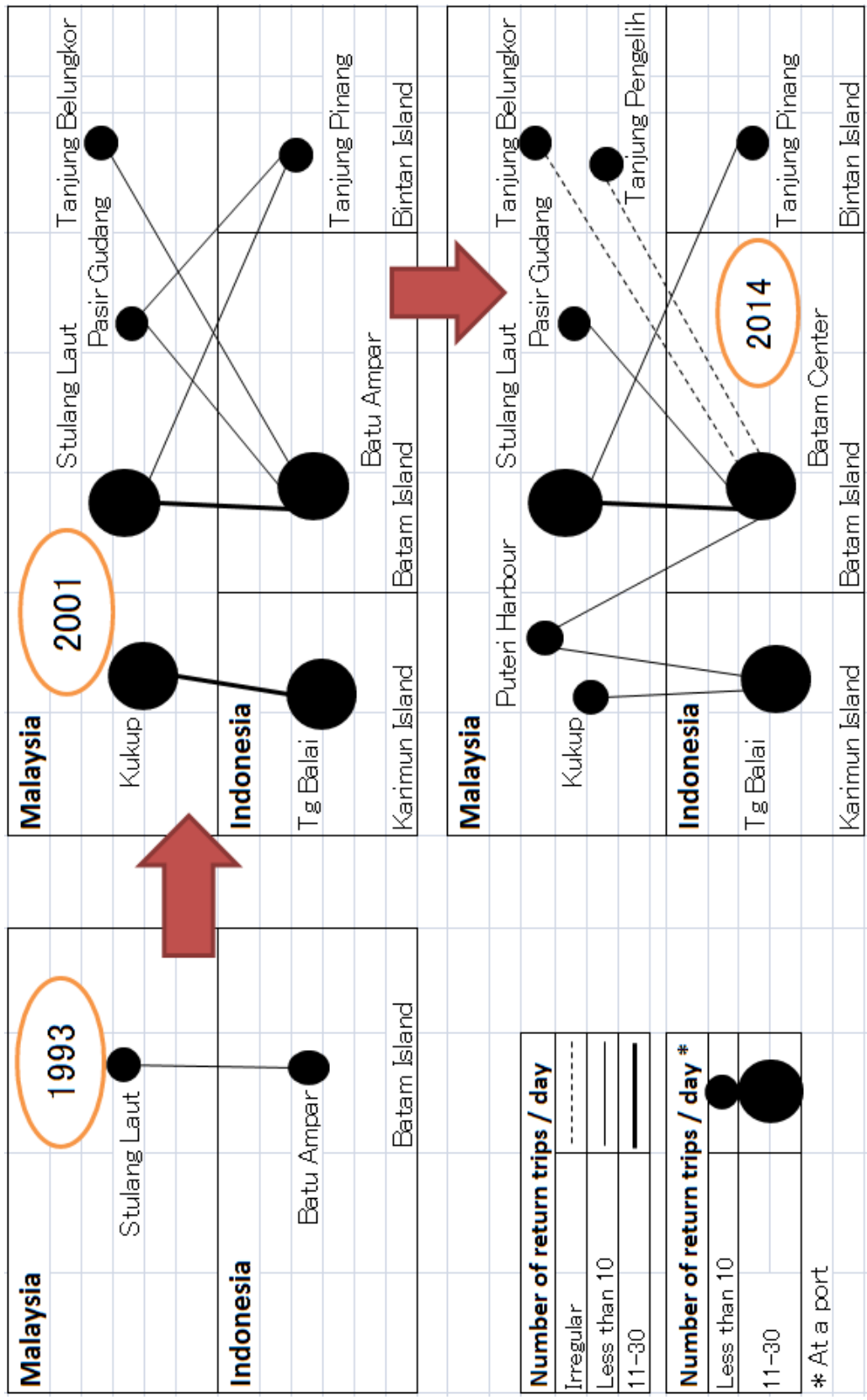
Source: Khoo (1980), *Fast Ferry International*, Chan (1996)

Fig 3.7: The International Ferry Network in 2001 and 2014



Source: Fast Ferry International, Each operator's website (accessed in April 2014)

Fig 3.8: The International Ferry Network in 1993, 2001 and 2014



Source: *The Straits Times*, Author's fieldwork

3.2 The 1980s and Before

Throughout the colonial period and up to the 1960s, individuals crossed the Singapore Straits regularly with little regard for the markers of territorial sovereignty or jurisdiction. It was only with the Confrontation in 1963, when Indonesia's northern periphery was a key site of skirmishes between Indonesia and Malaysia that territorial markers were put in place. Thus the Confrontation was pivotal in reimagining and reconstructing the borders in the strait³⁵. As a result, the "cross-border" ferry operation apparently started only after the borders were reconstructed.

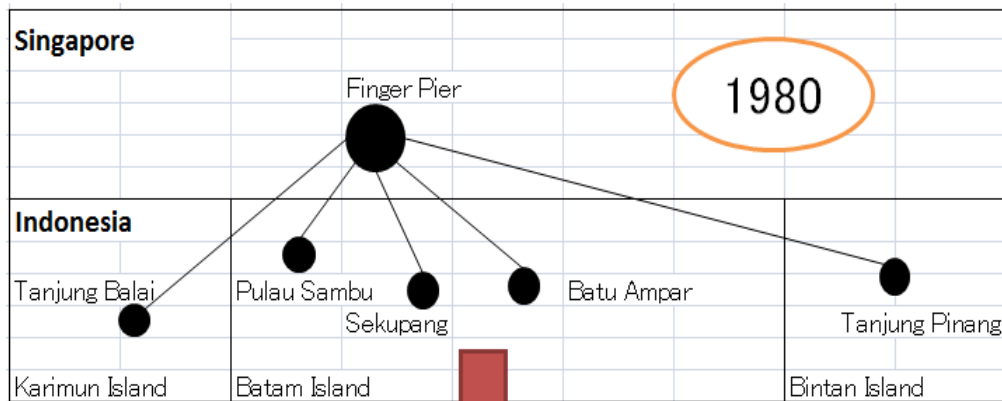
The first port which started its international operation in Batam was Sekupang in 1973³⁶. Thereafter, the network expanded gradually. Judging from Khoo's description (1980), it is estimated that the ferry network in the region was small in the beginning of the 1980s. There were five main international landing points in Rhio [Riau] Islands then. Ferries from these points called at Finger Pier in Singapore. The route to and from Tanjung Pinang was the busiest (more than 70 persons per day) due to the larger size of the population there³⁷. Considering these points, Fig 3.6.a was drawn. Although the number of ferry trips was not stated, one can imagine a small number of trips in consideration of the passenger number. Even for the busiest route, the number of the daily return trips is estimated to be less than ten.

³⁵ Lyons, Lenore and Michele Ford, "Fluid Boundaries: Modernity, Nation and Identity in the Riau Islands", in Robert Cribb and Michele Ford (eds.), *Indonesia beyond the Water's Edge: Managing an Archipelagic State*, Singapore: Institute of Southeast Asian Studies, 2009, p.225. The Confrontation was a conflict between Indonesia and Malaysia from 1963 to 1965, caused by Indonesia's opposition to the creation of Malaysia.

³⁶ *Bandar Media*, "Pelabuhan Feri Internasional Sekupang Batam Masih Prospek", Oct 2013, pp.8-10.

³⁷ Khoo, Ai Lin, *Passenger Shipping in Singapore*, Unpublished Honors Thesis, The Department of Geography, National University of Singapore, 1981, pp.56-57. The next biggest route was the route to and from Batam which served more than 40 persons per day.

Fig 3.6.a: The Network between the Riau Islands and Singapore in 1980



Source: Fig 3.6 (p.47)

At that time, it took longer to reach Riau Islands from Singapore: four to five hours to Tanjung Balai and two and half to three hours to Tanjung Pinang. But the journey to Batam was about 40 minutes to an hour. Indonesian passenger ferries were all Indonesian owned and many had been operating for 20 years. Since then, many new ferries have entered the service and on the average, the latecomers have been operating for approximately five years. The maximum carrying capacity of the ferries ranged from 70 to 110 passengers and a few of them were fully air-conditioned (Khoo, 1981: 60-61). There were apparently only Indonesian operators, and the crafts were relatively small.

As for passengers, the percentage of non-Indonesian passengers travelling between Singapore and Batam was the highest (60%) among the four major routes. This pattern was the result of the industrial development that was taking place there. On the other hand, the bulk of the passengers were Indonesians for the routes to Tanjung Pinang (70%), Sambu Island (80%) and Tanjung Balai (84%) in March 1979 (Khoo, 1981: 68-70)³⁸. Although one might observe some signs of development in

³⁸ In March 1979, out of 1,475 visitors to Batam, Indonesians accounted for 40%, while Singaporeans and Malaysians formed 22% and 19% respectively. The total passenger numbers to Tanjung Pinang, Sambu Island and Tanjung Balai was 2,178, 665 and 526 respectively.

Batam, it had not started on a full scale yet back then. As a result, the volume of the passengers was still small, and the number of the passengers to Tanjung Pinang exceeded the one to Batam.

Subsequently, in the late 1980s, the ferry transportation saw an increase in the number of trips even before the signing of the official agreement between Singapore and Indonesia in 1989. The rise of tourism had an impact on the ferry transportation network. As *Fast Ferry International* (May 1989) reported, Batam was made duty-free and consequently a minor explosion of tourism occurred in 1988. It also reported five ferry operators that plied three routes between Singapore and Riau Islands (See Table 3.1). In total, there were 21 daily return trips to Batam and six trips to Bintan (three trips via Batam)³⁹. At that time, the framework of the IMS-GT was not even proposed yet. However, the Singapore–Batam routes saw an increase in the number of ferry trips because of the increasing number of tourists from Singapore.

Table 3.1: Ferry Operators and Their Number of Trips in 1989 (daily return trips)

	Sekupang	Batu Ampar	Tanjung Pinang
Yang Passenger Ferry Service Pte Ltd	5		5 to 6 (3 via Batam)
PT. Bintan Baruna Sakti	5		
Tai Tong Shipping	5		
IGSA Transport		3	
Inasco Enterprise	3		
Total	18	3	5 to 6

Source: *Fast Ferry International*, “Tourism Boosts Fast Ferry Traffic in Singapore”, May 1989, pp.25-29.

³⁹ As this magazine sometimes does not include small Indonesian operators, the number of return trips here is estimated at a minimum.

3.3. The 1990s

The Riau Islands–Singapore Routes

The beginning of the 1990s saw a significant increase in the number of ferry trips between Singapore and Riau Islands due to the proposed Growth Triangle (GT) programs and ensuing agreements. *Fast Ferry International* (Sep 1993) investigated five ferry companies that operated the routes between Singapore and Riau Islands (See Table 3.2). In total, there were at least 62 return crossings on the Singapore–Sekupang route, two on the Singapore–Batu Ampar route and two on the Singapore–Tanjung Pinang route⁴⁰. In addition, three operators were operating at least 15 ferries in the Singapore–Tanjung Balai route as of 1995⁴¹.

Table 3.2: Ferry Operators and Their Number of Trips in 1993 (daily return trips)

	Sekupang	Batu Ampar	Tg. Pinang
Auto Batam Ferry Service	22		1
Seaflyte Ferry Services	24		1
Indo Falcon	12		
Sing- Batam Ferries	4		
J & N Cruises		2	
Total	62	2	2

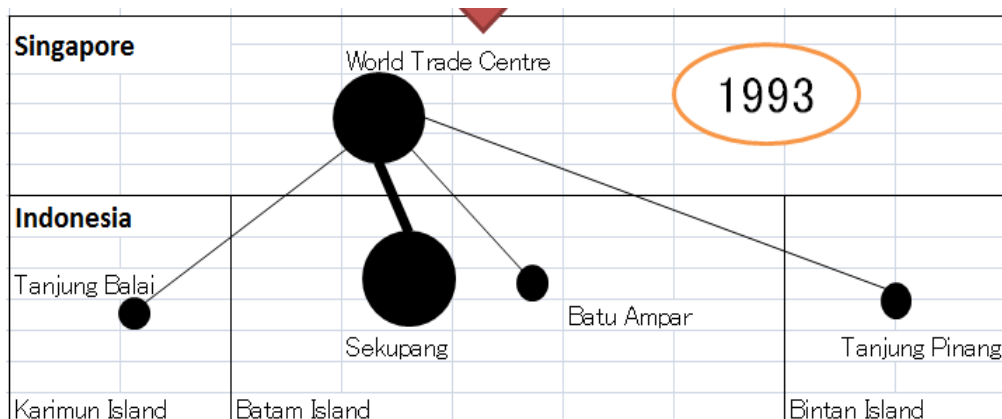
Source: *Fast Ferry International*, “Monohulls Predominate in Singapore Waters”, Sep 1993, pp.27-32.

⁴⁰ As this magazine sometimes does not include small Indonesian operators, the number of return trips is estimated at a minimum.

⁴¹ Chan, Hwee Leng, *The Lust Resort: Sex Tourism in Indonesia*, Case Study: Tanjung Balai Karimun, Riau, Unpublished Honors Thesis, Department of Southeast Asian Studies Programme, National University of Singapore, 1996, p.26. Although the number of daily ferry trips is not available, it is estimated to be less than ten in consideration of the statistics.

Considering the 1993 situation, Fig 3.6.b was drawn. Compared with the 1980 situation (Fig 3.6.a), the Singapore–Batam routes had become busier because of the increasing number of tourists from Singapore. The number of ferry trips in the Singapore–Sekupang route in 1993 especially increased to more than 60 (Fig 3.6.b). This can be confirmed as an increasing trend as reported in other articles from *Fast Ferry International*. In order to cater to an increasing number of passengers, the function of Finger Pier was relocated to World Trade Centre. The Singapore–Tanjung Pinang route had seen only a small increase in the number of ferry trips. In addition, it is speculated that the route to and from Pulau Sambu was abolished because of a decline in demand. As it only takes ten minutes from Sekupang by speedboat to reach there, the operators apparently felt that a direct trip was unnecessary.

Fig 3.6.b: The Network between the Riau Islands and Singapore in 1993



Source: Fig 3.6 (p.47)

The annual reports of Sembawang Maritime Limited (SML) also provided information on the international ferry transportation in the 1990s. SML expanded its activities rapidly in a short period. The company was a subsidiary of Sembawang Corporation Limited, a government-linked corporation in Singapore. SML had started the ferry business in 1994 when it purchased a 70% stake in Kalpin Tours, which

operated the Auto Batam Ferry Service. Subsequently, it purchased Star Ferry Services through Kalpin Tours in 1995⁴². At that time, SML held a 20% stake in Bintan Resort Ferries, which was subsequently increased to 30% in 1996. Consequently, SML had almost 60% market share of the Singapore–Riau Islands routes in 1995. However, various factors such as keen fare competitions started to dampen its profitability. In addition, the business condition worsened due to the Asian Financial Crisis in 1998 and it recorded a 17% drop in passenger volume compared to the previous year⁴³. Therefore, as the management in the new company perceived the ferry business as non-core business, they finally sold it to Penguin Boat International Limited in 1999⁴⁴. SML apparently entered the ferry business because they predicted an increase in the number of passengers due to the start of the IMS-GT. Despite the big market share in the mid-1990s, their business lasted just five years.

The 1990s saw a rapid expansion in the international ferry network in this area: the opening of new ports and establishment of new ferry operators. The new ports in Riau Islands opened one after another. In addition, as the number of passengers increased, several ferry operators were set up to meet the demand. However, the Asian Financial Crisis in 1998 played a significant role in drawing the 1990s to a quiet close.

⁴² *The Business Times*, “Sembawang Maritime Buys Star Ferry Services”, May 17, 1995 (Digital Source). Star Ferry Services was providing services between Singapore and Riau Islands with one vessel.

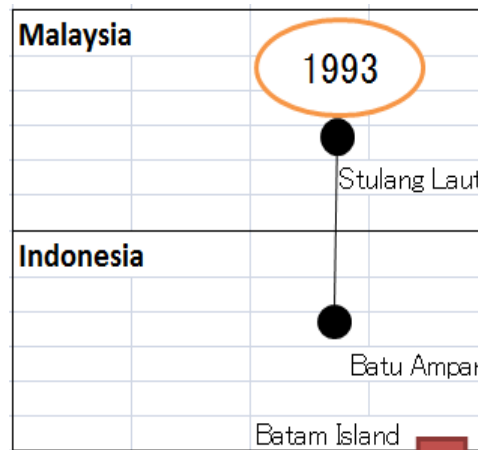
⁴³ Sembawang Maritime Limited, *Annual Report 1995 and 1996*. Sembawang Marine & Logistics Limited, *Annual Report 1997 and 1998*.

⁴⁴ SembCorp Logistics, *Annual Report 1999*. SML experienced a merger with one company.

The Riau Islands–Johor State Routes

At the beginning of the 1990s, the network between Riau Islands and Johor State was limited. It is estimated that there was only a route between Batu Ampar and Stulang Laut in 1993 (see Fig 3.8.a). PT. Pintas Samudra (Pintas) and PT. Bahtera Empat Wisesa Shipping have been operating this route since around 1990. At that time, Pintas operated two daily trips with two ferries⁴⁵.

Fig 3.8.a: The Network between the Riau Islands and Johor State in 1993



Source: Fig 3.8 (p.49)

Thereafter, several routes were established one after another due to the opening of new ports in Johor State in the 1990s. For example, the Batu Ampar–Pasir Gudang and the Tanjung Pinang–Pasir Gudang route opened in 1996 due to the opening of Pasir Gudang Port⁴⁶. The Batu Ampar–Tanjung Belungkor and Tanjung Balai–Kukup routes also opened in the 1990s⁴⁷.

⁴⁵ Interview at PT. Pintas Samudra in October 2013

⁴⁶ Brief interview at BP Sejahtera Amin Sdn Bhd in February 2014

⁴⁷ Judging from Johor Port Authority website (accessed in March 2014)

3.4. The 2000s

The Riau Islands–Singapore Routes

In 2001, according to *Fast Ferry International* (Mar 2001), Penguin Ferry Service (Penguin) became Singapore’s largest operator due to the acquisition of the ferry business from SembCorp Logistics. It also reported four operators: Seaflyte Ferry Services (Seaflyte), Bintan Resort Ferries (BRF), Waterfront City Resort and Berlian Ferries (see Table 3.3). Penguin and Seaflyte were two big operators with more than 30 daily return trips in 2001. In total, the Riau Islands routes scheduled a total of up to 114 return services a day. It increased to 160 trips when the services operated by Indonesian-based monohulls were included⁴⁸.

Table 3.3: Ferry Operators and Their Number of Trips in 2001 (daily return trips)

	Seku- pang	Batu Ampar	Nongsa	Water- front	Tg. Pinang	BBT	Lobam	Tg. Balai
Penguin	20 to 23	18	/	/	2	/	2	6
Seaflyte	20	6	6	/	3	/	/	3
BRF	/	/	/	/	/	5 to 8	/	/
Waterfront	/	/	/	10	/	/	/	/
Berlian	/	/	/	/	3 to 4	/	/	/
Total	40 to 43	24	6	10	8 to 9	5 to 8	2	9

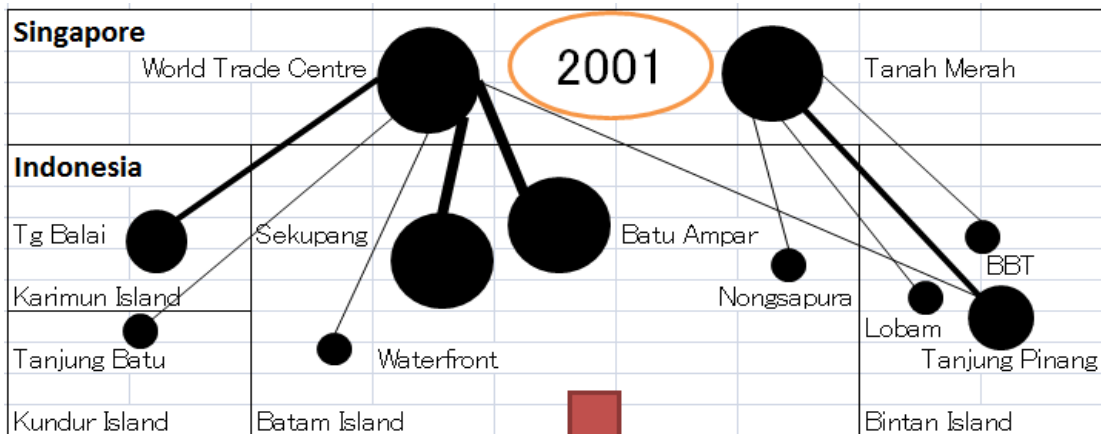
Source: *Fast Ferry International*, “Penguin Ferry Service Becomes Singapore’s Largest Operator”, Mar 2001, pp.24-26.

Considering the 2001 situation, Fig 3.7.a was drawn. When compared with the 1993 situation (in Fig 3.6.b), an expansion of the ferry network and an increase in the number of ferry trips can be observed. Other articles from *Fast Ferry International* confirmed this generally increasing trend. In Singapore, Tanah Merah Ferry Terminal opened in order to cater to an increasing number of passengers (see 4.1.1 in detail). In

⁴⁸ In addition to the five operators, other operator such as PT. Lautan Tata Laut and PT. Gembira Tanjung Batu existed in 2001.

the Riau Islands, Bandar Bentan Terani and Lobam opened in Bintan following the implementation of the IMS-GT flagship projects in 1994. In Batam, ports such as Nongsa and Teluk Senimba opened since the mid-1990s as resort areas for foreigners. It is speculated that operators started the Harbour Front–Tanjung Batu route for tourists with particular purposes (see section 4.2.1). In addition, the number of daily return trips from Singapore to Batu Ampar, Tanjung Pinang and Tanjung Balai increased to more than ten.

Fig 3.7.a: The Network between the Riau Islands and Singapore in 2001



Source: Fig 3.7 (p.48)

The annual reports of Penguin Boat International Limited (Penguin) can shed more light on the patterns and trends in 2000s. Penguin’s ferry business in the Riau Islands began in 1993 when its founder bought the 25% stake of Indo Falcon⁴⁹. Subsequently, Penguin became one of the biggest ferry operators in the area since it bought the ferry business from SembCorp Logistics in 1999. At that time, their business prediction was very optimistic due to several reasons such as the improved political and economic climate in Indonesia, and the encouragement of the Batam

⁴⁹ Penguin, *Prospectus dated 6 October 1997*

Authority in foreign investment. Its market share was between 30% and 35% in the Singapore–Batam routes then. This increased year by year, reaching 48% in 2001. Subsequently, they expanded the network by introducing a route from Singapore to Tanjung Batu in 2001, a route between Dumai (Sumatra Island) and Muar (Malaysia) in 2002, routes from Singapore to Waterfront in 2003 and Nongsa in 2004⁵⁰.

However, most of these services were short-lived. The routes between Muar and Dumai as well as from Singapore to Tanjung Batu and Nongsa were abolished in 2003, 2004 and 2005 respectively due to low load factors. The first three ports were areas which are distant from the center of the IMS-GT program. In addition, several factors such as the September 11, 2001 attacks, the outbreak of SARS in 2003 and the intense competition in the ferry industry since the 2000s had a negative impact on its business. Under these circumstances, one of the countermeasures that Penguin took was the code-sharing agreements with competitors in 2004. They included a bilateral and a tripartite agreement for a few routes⁵¹.

Since the mid-2000s, Penguin’s focus on its ferry business began to change. For instance, they stressed “Penguin is more than just a ferry operator” in its *Annual Report 2005*. Subsequently, its *Annual Report 2007* stated that “the retail ferry business is no longer a main feature of our group”. Ferry ticketing accounted for only 14% of its total revenue in 2008, compared to over 50% at the beginning of the 2000s. Penguin gradually shifted its core business from ferry business to shipbuilding and chartering business. Finally, they concluded that the ferry business was “loss-making”, and sold it to SIF Group Pte Ltd (SIF) in 2011 to focus on more profitable and core industrial activities⁵². The market share of Penguin as of December 2010 was still high.

⁵⁰ Penguin, *Annual Report 1999, 2001 to 2004 and Prospectus dated 15 September 2000*

⁵¹ Penguin, *Annual Report 2001 to 2005*

⁵² Penguin, *Annual Report 2005, 2007, 2008 and 2011*. The company name was changed from Penguin Boat International Limited to Penguin International Limited in 2008.

For example, it was 40 to 50% of the Harbour Front–Batam Centre route⁵³.

When Penguin bought its ferry business, they were optimistic about the future of the IMS-GT despite the aftermath of the Asian Financial Crisis. Therefore, they expanded their activities until the mid-2000s. However, their perception towards the ferry business began to change due to adverse business environments. Consequently, they let it go off in spite of having a big market share.

Since the 2000s, the international ferry network in the area saw a different business environment compared to the 1990s: the opening and the relocation of ports, and the establishment and the closure of ferry operators. New ports such as Harbour Bay and Bintan Lagoon opened, and the function of Batu Ampar was relocated to Batam Centre because it was inside the cargo port. Several operators such as PT. Lautan Tata Laut and PT. Gembira Tanjung Batu stopped their operations⁵⁴. Penguin expanded its ferry business at the beginning of the 2000s, but finally sold it to SIF in 2011.

The Riau Islands–Johor State Routes

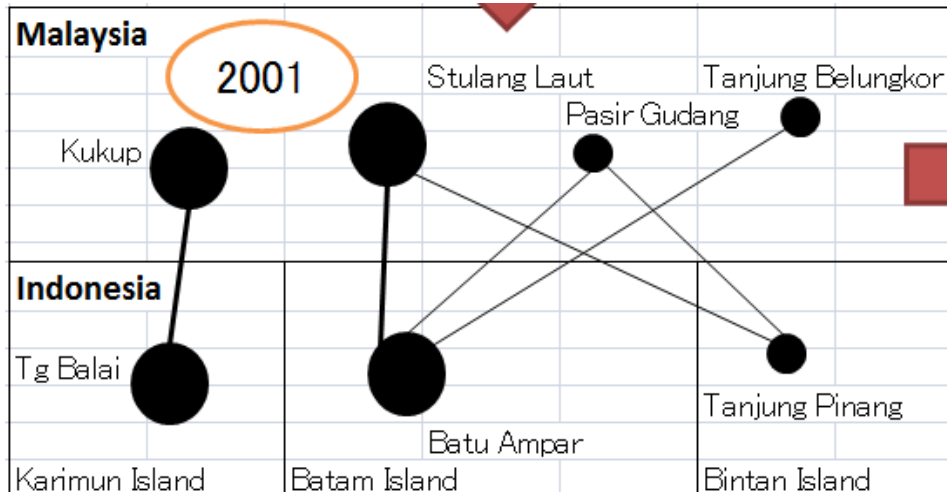
As a result of the establishment of new routes, the network between Riau Islands and Johor State expanded significantly in 2001 (see Fig 3.8.b). Compared with the 1993 situation (Fig 3.8.a), several ports in Johor such as Tanjung Belungkor and Kukup opened in order to attract residents and tourists from Singapore. The ferry operators started routes to and from the Riau Islands thereafter. In addition, the number of ferry trips in the Batu Ampar–Stulang Laut and Tanjung Balai–Kukup routes

⁵³ Competition Commission Singapore, “Proposed Acquisition by SIF Group Pte Ltd and Penguin Ferry Services Pte Ltd”, 20 Apr, 2011 (Digital source). Its market share in the other routes was 35 to 45% in the Harbour Front–Sekupang route and 30 to 40% in the Tanah Merah–Tanjung Pinang route. The article also pointed out familial affiliations between SIF and Pacific Ferry, but it was unlikely that coordinated effects would arise according to them.

⁵⁴ Interview at PT. International Golden Shipping in March 2014

increased to more than ten. However, the picture since the 2000s differed in each route. New routes were established, while the number of ferry trips in several ports decreased.

Fig 3.8.b: The Network between the Riau Islands and Johor State in 2001



Source: Fig 3.8 (p.49)

From Stulang Laut, there were two destinations: Batu Ampar and Tanjung Pinang. To Batu Ampar, PT. Pintas Samudra operated six daily trips in approximately 2003. During that time, the passenger number was increasing year by year, and the company became well-known not only to Indonesians but also to Malaysians⁵⁵. The route to Tanjung Pinang started in the 1990s⁵⁶. There were six daily ferry trips in 2001, but the frequency has been reduced thereafter⁵⁷.

In the Kukup–Tanjung Balai route, considering the number of Malaysians who entered Indonesia via Tanjung Balai (more than 100,000 in 2000 compared to 65,000

⁵⁵ Interview at PT. Pintas Samudra in October 2013

⁵⁶ Brief Interview at PT. Bahtera Empat Wisesa Shipping in Tanjung Pinang in October 2013. The interviewee stated that the opening of the route was more than fifteen years ago.

⁵⁷ *The Straits Times*, “Hundreds Hit by Ferry Crackdown”, Jul 20, 2001 (Digital source). Ferry operators were not mentioned.

in 2012), the number of ferry trips in this route was estimated to be more than ten in 2001. It apparently decreased thereafter (see section 4.2 in detail).

3.5. The Current Situation

The Riau Islands–Singapore Routes

In the Riau Islands–Singapore routes, there are more than 100 daily return trips, operated by eight companies as of April 2014: Batam Fast Ferry Pte Ltd (Batam Fast), Berlian Ferries Pte Ltd (Berlian), Bintan Resort Ferries Pte Ltd (BRF), Indo Falcon Shipping & Travel Pte Ltd (Indo Falcon), Mozaic Hotels and Resorts Pte Ltd (Mozaic), Pacific Ferry Pte Ltd (Pacific), Prima Ferries Pte Ltd (Prima) and SINDO Ferry Pte Ltd (SINDO). Mozaic, Pacific and Prima started their operations since the 2010s.

Ferries to Bintan and Nongsapura (Nongsa) in Batam depart from Tanah Merah in eastern Singapore. Tanah Merah is the departure point for four destinations: Bandar Bentan Terani (BBT), Bintan Lagoon, Lobam, Nongsa and Tanjung Pinang (see Fig 3.1). The routes to and from the first three destinations are operated by one operator, BBT (5 to 7 daily return trips), and Lobam (1 to 2 trips on weekdays) by BRF, and Bintan Lagoon (2 trips) by Mozaic (see Table 3.4 for other operators to Nongsa and Tanjung Pinang).

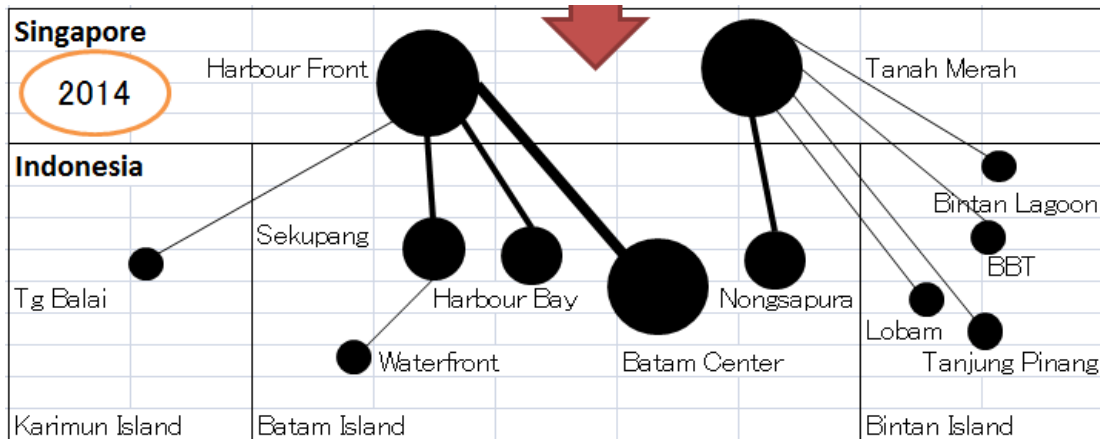
Ferries to Batam (except Nongsa) and Karimun depart from Harbour Front in southern Singapore. Harbour Front serves five destinations: Batam Centre, Harbour Bay, Sekupang, Tanjung Balai and Waterfront. More than two operators ply the first four routes. SINDO is the only regular operator to Waterfront via Sekupang (1 to 3 trips) [see Table 3.4 for other ports where more than two operators serve]. Among them, Batam Fast, Berlian and SINDO are the big operators with more than 20 daily return trips.

Table 3.4: Ferry Operators and Their Number of Trips in 2014 (daily return trips)

Port Name Operator	Batam Centre	Harbour Bay	Seku- Pang	Nongsa	Tg. Pinang	Tg. Balai	Total
Batam Fast	12	4	9	6 to 9			31 to 34
Berlian	15		1	4	2 to 3		22 to 23
Indo Falcon				4	2	2	8
Pacific			8 to 9				8 to 9
Prima		12					12
SINDO	12		7		2 to 4	2	23 to 25
Total	39	16	25 to 29	14 to 17	6 to 9	4	104 to 114

Source: Each operator's website (accessed in April 2014)

Fig 3.7.b: The Network between the Riau Islands and Singapore in 2014



Source: Fig 3.7 (p.48)

Fig 3.7.b was drawn based on the current situation. When comparing the 2001 situation with the 2014 situation in Fig 3.7, there are new ports such as Batam Centre, Harbour Bay and Bintan Lagoon. World Trade Centre was renamed Harbour Front. The function of Batu Ampar was transferred to Batam Centre which became the busiest port in Batam, surpassing Sekupang. However, several routes such as the Harbour Front–Tanjung Balai route faced a decline in the number of ferry trips. Besides, a few routes such as the Harbour Front–Tanjung Batu route were abolished. Thus, the network barely remained the same. Regarding the number of ferry trips, it

decreased significantly from 160 in 2001 to 125 (maximum) in 2014. The peak period was apparently the beginning of the 2000s but not exactly 2001, based on the articles from *Fast Ferry International*, annual reports and statistics. Operators such as Waterfront, PT. Lautan Tata Laut, and PT. Gembira Tanjung Batu left the market due to the harsh business environment (further discussed in 4.2.1). In any case, the era of network expansion has gone, and the business environment is different for each route.

Table 3.5: The Change of Entry Points for Foreigners and Indonesians [million of persons, (numbers in parentheses refer to percent share to total)]

Port name	Foreigners		Indonesians	
	2000	2012	2000	2012
Batu Ampar => Batam Centre	0.43 (33)	0.50 (43)	0.35 (63)	0.63 (57)
Harbour Bay	-	0.31 (26)	-	0.28 (25)
Sekupang	0.68 (52)	0.24 (21)	0.14 (25)	0.19 (17)
Nongsa	0.07 (5)	0.08 (7)	0.01 (2)	0.01 (1)
Waterfront	0.13 (10)	0.04 (3)	0.06 (11)	0.001 (0)
Total	1.30 (100)	1.17 (100)	0.57 (100)	1.12 (100)

Source: Batam Port Corporation (Author's collection)

Analyzing the breakdown of passengers to Batam in each port since 2000 would shed more light on the trends and patterns of the ferry networks. In 2000, Sekupang (0.68 million) attracted the most foreign tourists, followed by Batu Ampar, Waterfront and Nongsa (see Table 3.5). Subsequently, tourist entry points have changed significantly. In 2012, Batam Center (0.50 million) attracted the most foreigners, followed by Harbour Bay, Sekupang, Nongsa and Waterfront. The opening of new ports such as Batam Centre (its port function was relocated from Batu Ampar in 2003) and Harbour Bay (opened in 2006) affected the network and the number of ferry trips in Batam, and these ports became major entry points for foreigners. In contrast to these ports, the number of passengers to Sekupang decreased significantly. Its percent share

to the total number of foreign passengers decreased from 52% in 2001 to 28% in 2012. As a result, the number of ferry trips to Batam Centre and Harbour Bay increased in 2014 compared to 2001, while the one to Sekupang decreased (see Fig 3.7).

Entry ports in Batam for Indonesians have also changed. In 2000, Batu Ampar (0.35 million) attracted the most Indonesians, followed by Sekupang, Waterfront and Nongsa (see Table 3.5). Subsequently, Indonesian passengers also shifted to new ports following the trend of foreign tourists. In 2012, Batam Centre (0.63 million) attracted the most Indonesian passengers, followed by Harbour Bay and Sekupang. Nongsa and Waterfront attracted few Indonesians because these are resort areas mainly for foreigners. Due to the increase in the number of Indonesian passengers from 0.56 million to 1.12 million, Batam Centre benefited from this growth, while Sekupang experienced only a slight increase. Except for the ports in the resort areas, a major difference between foreign and Indonesian passengers was not seen.

Since the 2000s, the IMS-GT has lost momentum compared to the 1990s. The trilateral meetings have not been held since 1997, and the focal points in Indonesia shifted from the big projects to the upgrading of the economic framework such as the inclusion of the Integrated Sourcing Initiative clause into the USA–Singapore FTA and the granting of Free Trade Zone status to Batam, Bintan and Karimun. They might be considered as part of the IMS-GT projects in a broader sense. However, they did not contribute to the ferry transportation significantly judging from the ferry network and its statistics.

The Riau Islands–Johor State Routes

Compared with the ferry network between Riau Islands and Singapore, the one between Riau Islands and Johor State is small. Still, there are more than 30 daily ferry

return trips between the two areas. In this network, even though there are many ports in the Riau Islands, only one port in each island is used to connect to ports in the Johor State: Batam Centre in Batam, Tanjung Pinang in Bintan and Tanjung Balai in Karimun. Batam Centre serves five ports: Stulang Laut, Pasir Guadang, Puteri Harbour, Tanjung Pengelih and Tanjung Belungkor (see Fig 3.1). Tanjung Pinang serves only Stulang Laut. Tanjung Balai serves Kukup and Puteri Harbour due to its proximity to Malaysia.

The Batam Centre–Stulang Laut route is the busiest among the Riau Islands–Johor State routes because of its location. It is near central Johor Bahru, and the terminal is located inside the duty free shopping mall. Three companies form a consortium to operate a total of fifteen daily return trips (see Table 3.6). As they operate in a consortium, they change the operation slots every month to be fair. The revenue is also divided equally. It was formed roughly in 2009 when Citra entered the market⁵⁸. The consortium can also be observed operating the Tanjung Pinang–Stulang Laut route. Three ferry owners currently operate a total of three daily return trips, and also change the operation slots every five or six days. The consortium was formed approximately five years ago⁵⁹.

⁵⁸ Interview at PT. Pintas Samudra in October 2013

⁵⁹ Brief Interview at PT. Bahtera Empat Wisesa Shipping in Tanjung Pinang in October 2013. As the operators in this route consign ticketing service to agents, the ferry names are shown in the Table 3.6.

Table 3.6: Operators, Agents and Ferry Names and Their Trips in March 2014

Routes	Operators, Agents and Ferry Names	Number of Daily Return Trips
Batam Centre ↔ Stulang Laut	PT. Pintas Samudra	5
	PT. Bahtera Empat Wisesa Shipping	5
	PT. Citra Adiartha Shipping	5
B. Centre ↔ Pasir Guang	PT. International Golden Shipping (=IGS)	4
B. Centre ↔ Tg. Belungkor and Tg. Pengelih	PT. Duta Bahari Sakti (Agent)	Irregular
	PT. Duta Bahari Sentosa (Agent)	
B. Centre ↔ P. Harbour	Berlian Ferries Pte Ltd	2
Tg. Balai ↔ P. Harbour	Mercu Tunggal Services (M) Sdn Bhd	2
Tg. Balai ↔ Kukup	PT. Lautan Inti Mega	4-5
	PT. Marinatama Gemanusa	
	Penaga Timur (M) Sdn Bhd	4
Tg. Pinang ↔ St. Laut	Indomas, Sentosa, Marina (Ferry Name)	3

Source: Author's fieldwork

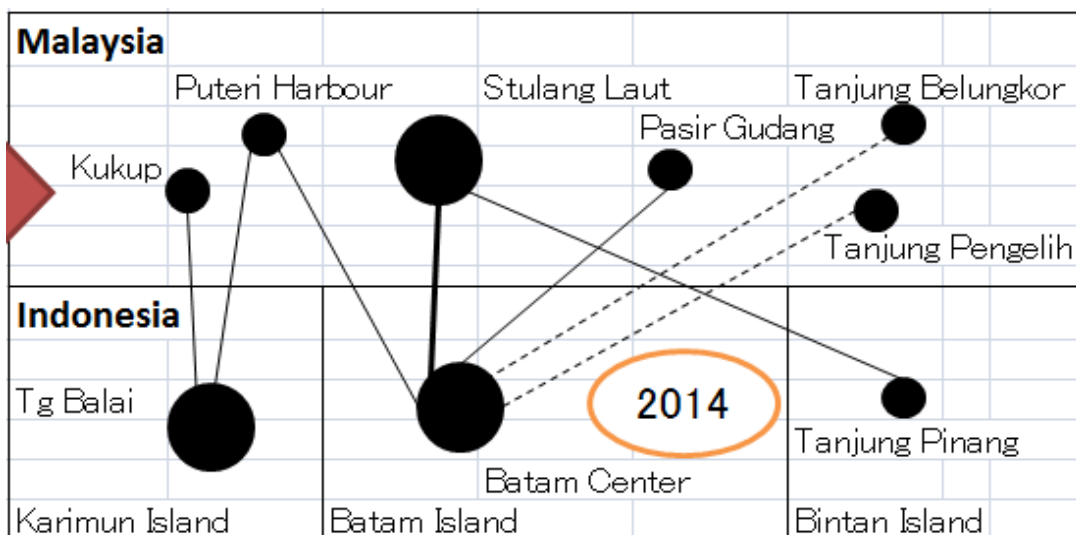
The number of ferry trips from Batam Centre to the other four ports is less than five. Pasir Gudang is a terminal located inside the Pasir Gudang Industrial Area which is to the east of Johor Bahru. IGS, incorporated from an agent in approximately 2010, is an operator. Puteri Harbour is situated near Nusajaya, the newly developed area. It is to the southwest of Johor Bahru, and opened in May 2013 as one of the Iskandar projects (see section 2.1.3). Mercu Tunggal Services operates the route to and from Tanjung Balai, while Berlian Ferries operates to and from Batam Centre. Tanjung Pengelih (Pengelih) is located at Pengerang, the southeast tip of Johor Peninsula, while Tanjung Belungkor is located north of Pengelih. For these destinations, non-scheduled ferries are currently operated.

In the route between Tanjung Balai and Kukup, there are a total of nearly ten daily return trips. Though Kukup is a fishing village located at the southwest tip of Johor State, it takes only one hour to reach Tanjung Balai. Thus, there are a few operators: one ferry group and one operator. The former consists of two operators and

conducts a joint operation formed in 2002⁶⁰, while the latter started the Kukup–Tanjung Balai route in 2008.

Considering the current situation, Fig 3.8.c was drawn. When compared with the 2001 situation (see Fig 3.8.b), the network in 2014 between Riau Islands and Johor State has not changed significantly. In Batam, the function of Batu Ampar was relocated to Batam Centre. In Johor, Puteri Harbour opened as one of the Iskandar projects and the irregular trip between Batam Centre and Tanjung Pengelih started. It is speculated that Pengelih initially opened to connect to Singapore like other ports in Johor State, and the route to and from Batam opened subsequently. However, a few routes such as the Pasir Gudang–Tanjung Pinang route were abolished and the number of ferry trips in a few routes such as the Kukup–Tanjung Balai decreased at the same time. Thus, it is fair to say that the network and the number of ferry trips almost remained the same from 2001 to 2014.

Fig 3.8.c: The Network between the Riau Islands and Johor State in 2014



Source: Fig 3.8 (p.49)

⁶⁰ Interview at PT. Marinatama Gemanusa in September 2013

3.6 Conclusion

Figures 3.6 and 3.7 were drawn to illustrate the Riau Islands–Singapore routes. The periods in each figure were selected to understand the general trend in each decade. Therefore, they exactly indicate neither the peak nor the bottom periods. Before the IMS-GT started, the international ferry network in Riau Islands was almost static, and the Singapore–Tanjung Pinang route attracted the most passengers. In 1980, the number of daily return ferry trips was estimated to be less than ten even for this route. However, this trend and pattern has changed since the late 1980s when Batam was highlighted due to the rise of tourism. Thereafter, the introduction of the IMS-GT program accelerated the expansion. In 1993, for example, the number of trips in the Singapore–Sekupang route increased to more than 50. Following the traffic increase, the function of Finger Pier in Singapore was transferred to World Trade Centre in 1992 and Tanah Merah opened as a second port in 1995. In the Riau Islands, new ports such as Bandar Bentan Terani, Nongsapura and Teluk Senimba opened for resort tourists in the mid-1990s. Consequently, the network in 2001 shows an expansion and an increase in the number of ferry trips.

The 2000s period saw adverse business environments such as the September 11, 2001 attacks and the outbreak of SARS in 2003. In addition, the IMS-GT has lost its momentum compared to the 1990s. Penguin finally sold its ferry business to SIF in 2011. Consequently, the network barely remained the same, and the number of ferry trips decreased significantly from 160 in 2001 to 125 (maximum) in 2014. Several operators also stopped their operations. On the other hand, port facilities were upgraded throughout the 2000s in Batam. The function of Batu Ampar was relocated to Batam Centre. Harbour Bay opened and Sekupang completed its terminal renovation.

Fig 3.8 illustrates the Riau Islands–Johor State routes. Similar to the Riau

Islands–Singapore routes, there are three figures (1993, 2001 and 2014). In 1993, the route was limited to only between Stulang Laut and Batu Ampar. Thereafter, new ports such as Kukup, Tanjung Belungkor and Pasir Gudang opened and new routes were established. Some of them initially opened to attract residents and tourists from Singapore. The ferry operators started the routes to and from Riau Islands thereafter. As a result, the network in 2001 shows an expansion and an increase in the number of ferry trips compared to the one in 1993. It appears that the peak period of the network was approximately the beginning of the 2000s, not exactly 2001, based on newspaper articles, interviews and statistics. Since the 2000s, new ports opened and new routes were established, while a few routes were abolished or the number of ferry trips for certain routes decreased. Consequently, it is estimated that the network and the number of ferry trips in 2014 remained almost the same compared to 2001.

Compared with the Riau Islands–Singapore routes (Figures 3.6 and 3.7), the network in the Riau Islands–Johor State routes (Fig 3.8) is smaller and had expanded later because several ports in Johor only opened in the mid-1990s. In addition, there are no ferry routes to resort areas in Bintan and Batam from Johor State because these areas are developed mainly for Singaporeans and tourists to Singapore. With regard to ferry operations, several ferry operators form a consortium for the Riau Islands–Johor State routes. They allocate operation slots to each member and departure time for each operator changes at regular intervals. In the Riau Islands–Singapore routes, on the other hand, there used to be a code-sharing ferry operation, but it is currently not observed.

Chapter IV:

Explaining the Picture: What Accounts for the Changing

International Ferry Networks in the Riau Islands?

The preceding chapter presents the changing trends and patterns of the international ferry network in the Riau Islands. The current chapter explains these changes from various perspectives. Section 4.1 discusses the first perspective in terms of the role of each government (Singapore, Indonesia and Malaysia) and the international regulations in the ferry transportation. Sections 4.2 and 4.3 present the second perspective in terms of the impacts of the Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT), and the external factors that affected the ferry operation business. Section 4.4 discusses the third perspective through the case studies of three private operators to illustrate their trajectories since their establishment. I have chosen Bintan Resort Ferries because of its unique ownership; Indo Falcon because of its 2-year history as a medium-size operator; and Batam Fast because of its 30-year experience as a big operator.

4.1 The Role of Government and International Regulations

Based on my fieldwork, unlike domestic operations, international ferry operations entail various procedures. In order to operate an international route, an operator needs to apply for an operating license in the destination country and obtain route permission from the harbor master in the destination port at the same time. An operator can choose only ports permitted in the agreement between the governments. They need to abide by the stricter regulations in the countries concerned and international regulations. They also need to set up a company or appoint an agent in

the destination country.

Therefore, this section discusses the procedure involved in ferry operations in Singapore because it has the most stringent regulations among the three countries based on my fieldwork. This section also discusses the port administration in each country because its government's position towards ferry transportation is frequently reflected in it. Finally, it investigates international regulations as these have become increasingly important in international ferry operation.

4.1.1 The Singapore Government

In Singapore, the Maritime and Port Authority of Singapore (MPA), a statutory board of the Ministry of Transport (MOT), is in charge of port and shipping. A company must obtain a license from MPA in order to operate ferry services to and from Singapore. Before seeking MPA's approval, it must seek the terminal operator's written support for the proposed frequency of services. An operator can submit its statutory declaration through the MPA's web-based system. It must also ensure that its ferries entering Singapore ports comply with the requirements of the International Convention for the Safety of Life at Sea (SOLAS) Chapter XI-2 and the International Ship and Port Facility Security (ISPS) Code. Ferry operators pay port dues to MPA, but MPA had previously given a port dues concession to them during the SARS outbreak in 2003 because of a harsh business climate⁶¹.

The government also regulates the ticket sales system for ferries departing from Singapore, and this regulation has changed over the years. At the beginning of the 1990s, local legislation prohibited shipping lines from selling tickets directly to passengers. Consequently, tickets for each particular company's vessels were sold by at

⁶¹ MPA, 2005, *Application Form for Regional Ferry Operators' License*, Jan 3, 2005 (Digital Source), and MPA's website (accessed in February 2014)

least one other company acting as an agent, some of which are independent and some of which are subsidiaries of the operating company (*Fast Ferry International*, Sep 1993: 27). This legislation does not currently exist, and each operator sells tickets directly to the individual passenger⁶².

In Singapore, there are two ferry terminals that serve the routes to and from the Riau Islands: Harbour Front and Tanah Merah. They are administered by the Singapore Cruise Center Pte Ltd (SCCPL). Their previous administrator was Port of Singapore Authority (PSA), an ex-statutory board. In 1996, PSA's regulatory functions were handed over to MPA. Subsequently, PSA was corporatized in 1997 to manage and operate its terminals and related businesses⁶³. In 2003, the Singapore Cruise Center was divested from PSA Corporation Ltd and became an independent company, the aforementioned SCCPL.

Until 1992, the international ferry terminal in Singapore was located at Finger Pier. The facility was mainly for cargo-handling, but the beginning of the 1990s saw an increase in the number of passengers. Consequently, six berths were built at World Trade Centre (renamed Harbour Front in 2003 after the renovation of the shopping mall in the same building⁶⁴) to serve international ferry destinations together with the terminal for cruise passengers⁶⁵. The other terminal in Tanah Merah opened in 1995. In 1993 and 1994, international ferry traffic was growing at an average of 22% annually. In order to cater to this growth, PSA constructed a new ferry terminal at Tanah Merah⁶⁶. Thus, ferry operators that leave for Bintan Island, Nongsa in Batam, and Malaysia, were relocated from World Trade Centre to Tanah Merah. As was expected, the number

⁶² On the other hand, a passenger can buy a ticket from both an operator and an agent in the Riau Islands and Johor State.

⁶³ PSA's website (accessed in February 2014).

⁶⁴ District Guide Singapore's website (accessed in February 2014).

⁶⁵ SCCPL's website (accessed in February 2014).

⁶⁶ *The Business Times*, "New Ferry Terminal Opens Tomorrow", Aug 25, 1995 (Digital Source).

of passengers from these two terminals to Indonesia and Malaysia grew steadily throughout the 1990s: 0.96 million in 1989 to 5.18 million in 1999⁶⁷.

As a prime mover of the IMS-GT, the Singapore government, more precisely PSA, predicted a future increase in the number of passengers and built two ferry terminals in advance. Its strategy paid off, and the two terminals have catered to an increase in the number of passengers since the 1990s.

4.1.2. The Indonesian Government

In Indonesia, the Ministry of Transportation (= *Kementerian Perhubungan*, MOT) is in charge of the ferry transportation and within the ministry is the Directorate General of Sea Transportation (= *Direktorat Jenderal Perhubungan Laut*, DGST). DGST issues licenses to ports and ferry operators (see section 5.2.1 for details).

In the Riau Islands, there are ten ports that serve international routes (see Fig 3.1). The port operators are mostly developers of the area and a state-owned enterprise (see Table 4.1). For example, the area in Harbour Bay was developed by a group with more than twenty years of experience in property development business in Batam⁶⁸. Its affiliated company currently operates the terminal⁶⁹. Bandar Benten Terani, Nongsa, Waterfront and Bintan Lagoon ports have opened since the mid-1990s to attract resort tourists from Singapore and are also operated by their respective developers. The ports in Tanjung Pinang and Karimun are operated by Indonesia Port Corporation I (= *PT. Pelabuhan Indonesia I*), a state-owned enterprise headquartered in Medan, Sumatra Island.

⁶⁷ PSA, *Annual Report 1998*, p.33

⁶⁸ BatamWeb.net website (accessed in July 2014)

⁶⁹ *The Jakarta Post*, "Protests Greet Batam's New Port", Nov 6, 2006 (Digital Source).

Table 4.1: Ports in the Riau Islands and Their Operating Companies

Island	Port	Operating Company
Batam	Batam Centre	PT. Synergy Tharada
	Harbour Bay	PT. Citra Tritunas
	Nongsapura	PT. Nongsa Terminal Bahari
	Sekupang	PT. Indodharma Corpora
	Teluk Senimba	PT. Senimba Bay Resort
Bintan	Tanjung Pinang	PT. Pelabuhan Indonesia I
	Bandar Bendan Terani	PT. Bintan Resort Cakrawala
	Lobam	PT. Bintan Inti Industrial Estate
	Bintan Lagoon	Mozaic Hotels and Resorts Pte Ltd
Karimun	Tanjung Balai	PT. Pelabuhan Indonesia I

Sources: Each company's website (accessed in February 2014), Author's fieldwork, The Commission for the Supervision of Business Competition, "PUTUSAN: Perkara Nomor 32/KPPU-L/2009", Jakarta: KPPU (Digital Source, accessed in April 2014), and *The Jakarta Post* (Nov 6, 2006)

Two port operators in Batam constructed the terminals under the BOT (Build–Operate–Transfer) scheme. BIDA (=Batam Industrial Development Authority, now known as Batam Indonesia Free Zone Authority or BIFZA) is heavily involved in upgrading the port terminals since the 2000s. For example, Batam Centre is managed by PT. Synergy Tharada which built the terminal with BIDA's cooperation. Under the BOT scheme, they previously built and managed Batu Ampar that was relocated to Batam Centre in 2003⁷⁰. In Sekupang, BIDA changed the terminal management system in 2004 when it handed its management rights over to PT. Indodharma Corpora under the BOT scheme. PT. Indodharma Corpora then started renovating the terminal and completed it in 2008.

In the Riau Islands, ports for resort tourists have opened since the 1990s and are operated by their developers. The unique feature of Batam is the BIFZA's role. A development organization like BIFZA does not exist in the other regions. BIDA, BIFZA's predecessor, has upgraded the port terminals since the 2000s. This type of

⁷⁰ Synergy Group's website (accessed in February 2014). It states "*pengelolaan*" (= management) of the Batam Centre Terminal.

remarkable upgrading is not seen at the ports in Tanjung Balai and Tanjung Pinang apparently because their operating company (PT. Pelabuhan Indonesia I) does not put much emphasis on them.

4.1.3 The Malaysian Government

In Malaysia, the Ministry of Transport is in charge of the ferry transportation. Within the ministry are the Marine Department Malaysia (= *Jabatan Laut Malaysia*, MDM) and the Johor Port Authority (= *Lembaga Pelabuhan Johor*, JPA). MDM issues licenses to ferry operators and has the authority to stop their ferry operations⁷¹. JPA is one of five port authorities in Malaysia.

Table 4.2: Ports in the Johor State and Their Operating Companies

	Owner	Operator
Kukup	Johor Kingdom	Penaga Timur Sdn Bhd
Stulang Laut	Kelana Megah Sdn Bhd	Berjaya Waterfront Sdn Bhd
Pasir Gudang	Johor Port Authority	Pasir Gudang Passenger Terminal Sdn Bhd
Tanjung Pengelih	Maritime Department Malaysia	The contractor of Maritime Department Malaysia
Puteri Harbour	UEM Sunrise Bhd	Ridaa Associates Sdn Bhd
Tanjung Belungkor	Johor Port Authority	Syarikat Marin Island Venture Capital Sdn Bhd

Sources: *New Straits Times*, “New Ferry Service Set to Grow”, Jul 26, 2013, (Digital Source), Author’s fieldwork, Marine Department Malaysia’s website, Johor Port Bhd’s website, and Johor Port Authority’s website (accessed in February 2014)

In the Johor State, MDM and JPA administer a total of six international ports which serve the Riau Islands (see Fig 3.1). MDM administers Kukup, Stulang Laut, Tanjung Pengelih and Puteri Harbour, while JPA administers Pasir Gudang and Tanjung Belungkor. These ports are owned and operated by various organizations and

⁷¹ For example, MDM stopped Indonesian-registered ferries from entering Malaysia because some of them did not meet safety standards (*The Straits Times*: Jul 20, 2001).

companies (see Table 4.2). The owners include the Johor Kingdom and the administrators, while most of the operators are private companies related to each port.

Since the 1990s, the administrators have opened ports in the Johor State one after another to connect with Singapore⁷². The routes to and from the Riau Islands opened thereafter. They are dispersed along the coastal line of the Johor State. There are a total of maximum of twenty daily return trips from each port. In addition, road transportation plays an important role between the Johor State and Singapore. Thus, the bulk of ferry passenger volume is not concentrated in a particular port like Singapore or Batam, and the authorities apparently do not put much emphasis on upgrading its port terminals.

4.1.4 International Regulations

Besides local rules, the IMO (International Maritime Organization) regulations play an important role in the ferry operation. Three such regulations are investigated here: the International Safety Management (ISM) Code, the International Ship and Port Facility Security (ISPS) Code and voyage data recorders (VDRs). The last is studied as an example of the government's flexibility with regards to the international regulation.

First, the IMO adopted the International Management Code for the Safe Operation of Ships and for the Pollution Operation (the ISM Code) in 1993. It is based on resolution A.647 (16) in the wake of a number of very serious accidents which occurred during the late 1980s. The objective was to ensure safety at sea, the prevention of human injury or loss of life, and the avoidance of damage to the marine environment and property⁷³. The ISM Code has been amended several times since.

⁷² For example, Tanjung Belungkor, which opened in 1993, was constructed by the Malaysian government as a third gateway project which links Singapore and the Johor State by roll-on roll-off (ro-ro) ship [Johor Port Authority's website (accessed in February 2014)].

⁷³ IMO's website (accessed in February 2014)

According to the *Penguin Boat International Annual Report* (1997), all vessels operating in international waters must have ISM certification from July 1998. Therefore, Penguin, for instance, undertook the necessary training for its crews and supervisors in 1997.

Second, the ISPS code is a comprehensive set of measures to enhance the security of ships and port facilities, developed in response to perceived threats to ships and port facilities in the wake of the 9/11 attacks in the United States. New provisions in the International Convention for the Safety of Life at Sea (SOLAS) were laid out in 1974: detailed security-related requirements for governments, port authorities and shipping companies in a mandatory section (Part A), together with a series of guidelines on how to meet these requirements in a second, non-mandatory section (Part B)⁷⁴. These went into effect as a treaty in 2004. International ports need to be certified with this ISPS code and a ship that is compliant should have an International Ship Security Certificate (ISSC). Subsequently, international ports in the Riau Islands, Singapore and the Johor State were certified with the ISPS code one after another.

Third, there were cases where individual governments imposed less strict regulations compared to international ones. For example, IMO regulations required all passenger ships to be fitted with a VDR not later than the first survey on or after July 2002. However, as international passenger ferries had previously experienced practical difficulties in installing VDR, MPA in Singapore had granted them interim exemptions from the installation of VDR under its own regulations. Subsequently, such exemptions were rescinded, and they were required to install a simplified voyage data recorder (S-VDR) by the first scheduled dry-docking not later than 1 Aug 2010⁷⁵.

In short, international ferry operators need to observe the laws and regulations in

⁷⁴ IMO's website (accessed in February 2014)

⁷⁵ IMO's website (accessed in February 2014)

the countries concerned as well as international regulations. The requirements from the authorities have gradually expanded due to security and safety reasons, especially since the 9/11/2001 attacks, and these have apparently added to the management expenses of the ferry operators⁷⁶.

4.2 The Impact of the Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT)

The IMS-GT program has increased the number of foreign visitors and Indonesians who cross the borders. The purposes of their visits are manifold: business, holiday, family reunion and so on. In this section, the impacts of the IMS-GT on both foreign and Indonesian visitors are discussed in the light of ferry transportation. Statistics were also gathered and discussed here in order to shed more light on the situation above.

4.2.1 Foreign Passengers

The IMS-GT brought about significant impact directly and indirectly to the Riau Islands. In this section, four flagship projects (as well as related ones) of the IMS-GT are discussed as a direct impact to attract business and holiday travelers, while tourism for sex and gambling are investigated as an indirect one.

The four flagship projects were Batamindo Industrial Park (BIP), Bintan Beach International Resort (BBIR), Bintan Industrial Estate (BIE) and Karimun Marine and Industrial Complex (KMIC). BIP is one of the industrial estates in Batam, and regarded as a symbol of the Growth Triangle program. BIP as well as other estates have attracted foreign direct investment (FDI) and created employment in Batam. Commuters and business travelers visit these industrial estates by ferry. Although it is

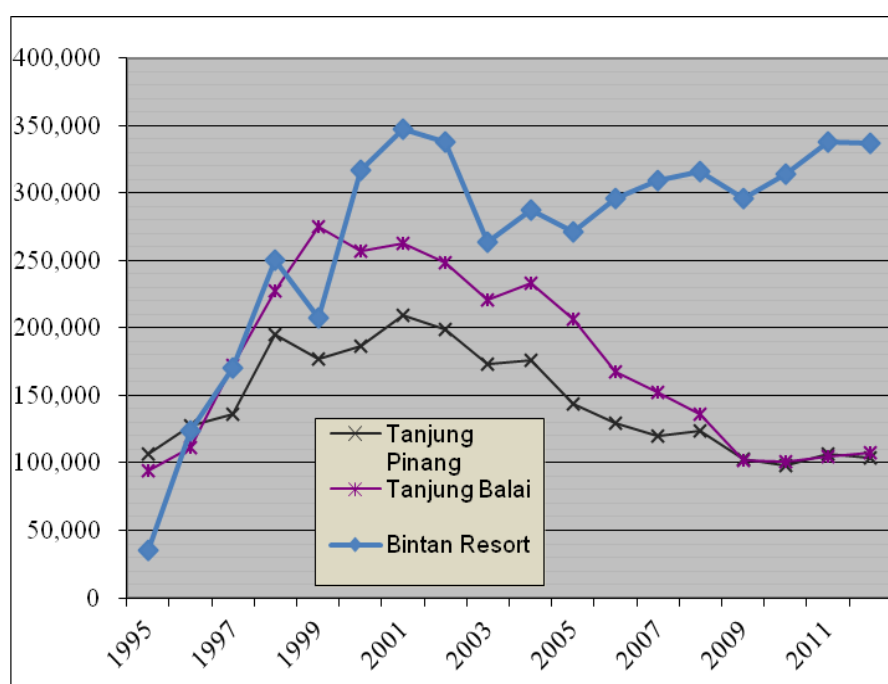
⁷⁶ Penguin's *Annual Report 2001* reported PSA Corporation's plan to raise charges for its security service.

difficult to measure the ratio of foreign visitors for business compared to the total visitors number, it is fair to say that they are one of the biggest groups traveling to Batam and have significantly contributed to an increase in the number of ferry trips between Singapore and Batam, judging from Batam's economy with foreign manufacturing companies at the center and a population with more than one million in the island (see section 2.1.3 for detail). However, industrial estates in Batam currently face competition with other estates in other areas in Indonesia and other countries such as China and Vietnam. For instance, 6,000 jobs were lost between 2005 and 2010 due to the closure of factories⁷⁷. In addition, the upgrading of the economic framework in the Riau Islands since the 2000s to attract FDI did not contribute significantly to job creation. As a result, demand to visit these industrial estates is not as strong as before.

Compared to BIP and other similar industrial estates, BIE and KMIC are smaller. BIE created a new route between itself and Singapore for business travelers, but the ferries run only on weekdays and the port is for their exclusive use. Judging from a small number of tenants in KMIC stated by Peachey, Perry and Grundy-Warr (1998: 43-44), it is estimated that KMIC only contributed slightly to an increase in the sea traffic between Singapore and Tanjung Balai.

⁷⁷ Wulandari, 2012: 24. Although the reasons for factory closures were not stated, increasing wages was pointed out as one reason in the media [see, for example, *Jakarta Post*, "Increasing Wages Driving Investors out of Batam", Jul 15, 2014, (Digital Source)]

Fig 4.1: Number of Foreign Visitors to Bintan and Karimun



Source: See Fig 1.2

Table 4.3: Nationality of Foreign Tourists to the Riau Islands, 2011 [Thousands]

	Batam	Tg. Pinang	Bintan Resort	Tg. Balai
Singapore	695 (60)	72 (68)	108 (32)	39 (37)
Malaysia	154 (13)	13 (12)	*	61 (59)
South Korea	48 (4)	*	26 (8)	4 (4) *
The Philippines	35 (3)		*	
India	27 (2)			
China	22 (2)		2 (2)	
Japan	215 (16) *	20 (18) *	24 (7)	
Others			149 (44)	
Total	1,161 (100)	106 (100)	337 (100)	

Note: Numbers in parentheses refer to percentages of the total.

* Included as Others

Source: *Kepulauan Riau in Figures* (2012)

BBIR and other resort areas created new ferry routes for resort tourists. A stable number of tourists traveled using the Singapore–BBIR route annually (see Bintan

Resort in Fig 4.1)⁷⁸. Beginning in 1994, passenger numbers reached its peak in 2001, totaling 347,000. Although it experienced a decline in the mid-2000s, it recovered with 330,000 in 2011. BBIR became the second busiest port for foreign visitors to the Riau Islands after Batam Centre. The characteristic of this route was that the ratio of Singaporeans was less compared to the others. For instance, it formed only 32% of total passengers in 2011, followed by the Chinese, South Koreans and Japanese (see Bintan Resort in Table 4.3). It is a holiday destination not only for Singaporeans but also for other nationalities. Despite a few negative effects since its beginning⁷⁹, there is still a stable number of passengers using this route.

The resort areas in Batam, i.e. Nongsa and Waterfront, are smaller compared to BBIR. However, they also created new ferry routes from Singapore in the 1990s and the number of foreign visitors on these routes formed more than 10% of the total to Batam in 2012. Although some visitors to Nongsa head for the neighboring industrial estate, most of them enter Nongsa for a holiday. In 2000, 196,000 foreigners entered Indonesia through these ports: 66,000 in Nongsa and 131,000 in Waterfront. However, these numbers decreased to 121,000 in 2012: 78,000 in Nongsa and 43,000 in Waterfront (Batam Port Corporation). The direct trip to Waterfront was abolished and consequently the number of ferry trips in Nongsa increased in 2014 compared to 2001 (see Fig 3.7).

The IMS-GT has unintentionally brought out other types of travelers to the Riau Islands: tourists for sex and gambling. As the traveling time to Tanjung Balai has shortened from more than four hours in 1980 to one and half hours, the island has become more accessible from Singapore. Based on statistics, Chan (1996: 24, 27, 35)

⁷⁸ This number also includes passengers to Lobam, an industrial estate. However, most of the passengers enter through BBIR.

⁷⁹ For example, tourists were worried about social unrest and stayed away during the Asian Financial Crisis in 1997-98 (Lyons and Ford, 2007: 242). Bunnel, Muzaini and Sidaway (2006) reported a large demonstration at the entrance of the area in 2000.

argued that sex tourism there started in 1993⁸⁰. Subsequently, other business ventures sprung up to cater to these weekend visitors: supermarkets, jackpot houses, gambling dens, karaoke lounges and discotheques. Although much has been mentioned in the literature about capital-intensive industries on Karimun, it was the establishment of brothels and the commercial sex industry that was more commonly cited as the ‘beginning’ of its development. Most respondents located this beginning to between 1996 and 1997⁸¹. It is estimated that the shortening of the traveling time due to introduction of a high-speed craft accelerated an increase in the number of visitors to Tanjung Balai.

In addition, Ford and Lyons (2008) in their study of sex tourism in the Riau Islands argued that the foreigner-dependent sector of the sex industry experienced a massive expansion after the Asian financial crisis of 1997-1998, when the purchasing power of Singaporean and Malaysian sex tourists increased as the Indonesian Rupiah depreciated by more than five times. Around the year 2000, Tanjung Balai experienced a sex industry-led construction boom, with some 50 new hotels being built. The industry began to decline in 2003 as a result of various factors such as a downturn in the Singaporean economy in 2002 and the SARS epidemic of 2003. There was an even more dramatic downturn in the sex industry in the second half of 2005 when gambling was made illegal by the Indonesian government. The sex industry, which had been closely tied to gambling, was badly affected⁸².

It is suggested that there is a link between the factors discussed above and the

⁸⁰ In 1992, Singaporeans made up 84.93% of total tourists (6,179 out of 7,275) to Tanjung Balai in Karimun Island, and 90% were male visitors. The purpose of visiting Karimun for pleasure (99%) surpassed other purposes such as business and social visitations.

⁸¹ Ho, Shu Ping, 2002, *Tanjong Balai Karimun: A Case Study of an Indonesian Town in Transition*, Unpublished Honors Thesis, Department of Sociology, National University of Singapore, pp.26, 46. According to her observation, the ferries (of between 100 to 200 seats) were usually filled to capacity with men in around 2000.

⁸² Ford, Michele and Lenore Lyons, 2008, “Making the best of what you’ve got”, in Michele Ford and Lyn Parker (eds.), *Women and Work in Indonesia*, London: Routledge, pp.178-179.

number of foreign tourists to Tanjung Balai. It was increasing up to 1999 when it reached 275,000. However, it experienced a decline since, totaling 107,000 in 2012, which is approximately 40% compared to that in 1999. Foreign tourists' visits increased even during the Asian Financial Crisis in 1998 but began to decline at the beginning of the 2000s. Since the government's decision to make gambling illegal in 2005, it declined even further. Thus, Fig 3.7 shows a decreasing number of ferry trips between Singapore and Tanjung Balai from 2001 to 2014. There were more than ten return trips in 2001, but it decreased to less than five in 2014. As for the nationality of the tourists, most of them were Singaporeans or Malaysians. Until around 2000, the largest number of visitors, more than two thirds, was Singaporeans, followed by Malaysians. Subsequently, this ratio began to change⁸³. The ratio of Malaysians increased and reached approximately 60% in 2011 (see Tanjung Balai in Table 4.3). It is also suggested that the number of foreign visitors declined as that of Singaporeans declined.

The stories similar to the one in Tanjung Balai were also found in Tanjung Pinang and Batam. In Tanjung Pinang, there has been a sharp rise in working-class tourism since the introduction of the IMS-GT. Some of the visitors came to see their families, to buy cheap goods or to visit places of which they had fond memories from their trips to the islands in their youth. However, most working-class men came in search of sex, gambling, cheap alcohol and drugs. In 2005, one respondent in Tanjung Pinang observed:

“Many Singaporeans came here in the 1990s ... The hotels were full ... People from other parts of Indonesia flooded here because they thought they'd be lots of opportunities. There were so many Singaporeans at that time!”

However, Tanjung Pinang's “honeymoon” period with Singaporean tourists did not last.

⁸³ *Karimun in Figures* (various years) and *Kepulauan Riau in Figures* (various years)

The town's reliance on the tourism industry further entrenched its marginal position within the IMS-GT and reinforced its inability to control the pace and direction of its future economic and social development⁸⁴.

Like the trend in Tanjung Balai, it is also suggested that there is a link between the factors discussed and the number of foreign tourists. The number of foreign tourists visiting Tanjung Pinang kept increasing until 2001 when it reached approximately 210,000 (see Fig 4.1). The number was observed to be in an increasing trend throughout the 1990s. However, it has declined since, totaling 104,000 in 2012, which is roughly half the number during the peak period. Consequently, the number of ferry trips between Singapore and Tanjung Pinang decreased between 2001 and 2014 (see Fig 3.7). There were more than ten daily return trips in 2001, but it decreased to less than ten in 2014. As the number of tourists with so-called "special" purposes declined, the overall number of tourists decreased. Ford and Lyons (2006) claimed that this city was marginalized from the IMS-GT development, and the decrease in the number of ferry trips bears support for their argument. As for the nationalities of the passengers, the largest number of passengers, more than two thirds, were Singaporeans. This was followed by Malaysians⁸⁵ (see Tanjung Pinang in Table 4.3). As the number of Singaporeans declined, the number of overall foreign tourists declined accordingly.

As for Batam, *The Straits Times* reported that around 600 Singaporean men visited the island every Saturday in 2004⁸⁶. This worked out to around 31,200 [multiply 600 by 52 (weeks)] men who visited Batam annually at that time. This number itself is large, but it forms only a small percent of the total number as more

⁸⁴ Ford, Michele and Lenore Lyons, 2006, "The Borders within: Mobility and Enclosure in the Riau Islands", *Asia Pacific Viewpoint*, Vol.47, No.2, pp.266-267.

⁸⁵ This trend lasts for over the last twenty years [*Kepulauan Riau in Figures* (various years) and *Tanjung Pinang in Figures* (various years)].

⁸⁶ *The Straits Times*, "It's Saturday- 600 S'pore Men Hit Batam for Sex", Mar 22, 2004 (Digital Source). Although Ford and Lyons (2008) found it difficult to verify this number, their interviews with sex workers and NGO workers in Tanjung Balai supported the findings of this survey.

than a million foreigners visit Batam annually. Compared to Tanjung Balai and Tanjung Pinang, the proportion they formed of the total visitors was smaller.

Thus, it is crucial to point out that a decline in the “night” business in Tanjung Balai and Tanjung Pinang led to a decrease in the number of foreign visitors. In 2001, there were more than ten daily return trips in the Singapore–Tanjung Pinang route and the Singapore–Tanjung Balai route, but they decreased to less than ten in 2014 (see Fig 3.7). In addition, based on my fieldwork, the Singapore–Tanjung Batu route was abolished due to the similar reason of declining passengers.

4.2.2 Indonesian Passengers

Indonesian passengers come from other parts of Indonesia and are residents in the Riau Islands. For Indonesians from other areas, the Riau Islands are a transit point. Although statistics do not disaggregate Indonesian tourists by place of residence, it is common knowledge that many Indonesians leaving through Batam in particular come from elsewhere in the archipelago, as it is far cheaper to take an internal flight to Batam and make the ferry crossing to Singapore, or less commonly, to Malaysia, than to fly directly from Jakarta or other major Indonesian cities. In addition, all Indonesians pay less exit tax (or *fiskal*) if they leave by land or sea. Batam’s status as a transit point for Indonesian tourists leaving for Singapore has had a significant impact on its economy (Lyons and Ford, 2007: 245-246). The exit tax system was phased out thereafter and completely abolished on 1st Jan 2011. However, Batam still functions as a transit place. Moreover, according to one interviewee, Indonesians play an important role in the ferry business yearly as official gatherings or meetings in Indonesia are frequently held in Batam. Thereafter, some attendees visit Singapore for leisure⁸⁷.

⁸⁷ Interview at Indo Falcon Shipping & Travel Pte Ltd in July 2013

The situation investigated also applies to the Riau Islands–Johor State routes. For example, *New Straits Times* reported two Indonesian passengers who entered Batam from Malaysia as a transit point for homecoming: one headed for Padang in Sumatra Island via Batam and the other left for Surabaya in Java Island, also via Batam. Both of them entered Batam by ferry and headed for their destinations by plane. Most Indonesians travel to Batam Island for their connecting flights or ferries to other parts of Indonesia⁸⁸. In addition, according to the operators and the agents, the number of Indonesian passengers exceeds Malaysian passengers. They named Indonesian workers (*Tenaga Kerja Indonesia*) first when I asked them who is the biggest group transiting through this port. Moreover, most of the passengers to Tanjung Pengelih and Tanjung Belungkor land at these ports just to enter Malaysia, but leave Malaysia via other points⁸⁹.

Riau Islanders continued to enter Singapore on tourist passes and worked as temporary workers as Lyons and Ford (2007: 251-253, 256) pointed out. Indonesians are recruited as cleaners and domestic helpers during key cultural and religious festivals such as Chinese New Year and *Idul Fitri*, and as seamstresses and handymen. These periods also attract significant numbers of hawkers and traders who sell goods in markets Singapore. Indonesians women from the islands also enter Singapore on tourist passes to work temporarily in the local sex industry. There are also groups of migrant workers who move across the border on a daily and weekly basis to work illegally in Singapore and Malaysia.

⁸⁸ *New Straits Times*, “JOHOR BAHRU: The Balik Kampung Rush Has Started at the Stulang Laut Ferry Terminal Here, the Biggest Ferry Terminal in the south Serving Batam Island and Bintan Island in Indonesia”, Jul 28, 2013 (Digital Source).

⁸⁹ According to the staff at Tanjung Pengelih Port, most of the passengers to these areas were Indonesian workers, and their final destinations were not neighboring areas near the ports, but other cities in Malaysia (Interview in December 2013). In addition, the statistics shed more light on the situation. The number of passengers (42,176) from Riau Islands to Tanjung Belungkor exceeded the one (2,065) in the opposite direction in 2011 (Johor Port Authority’s website, accessed in April 2014).

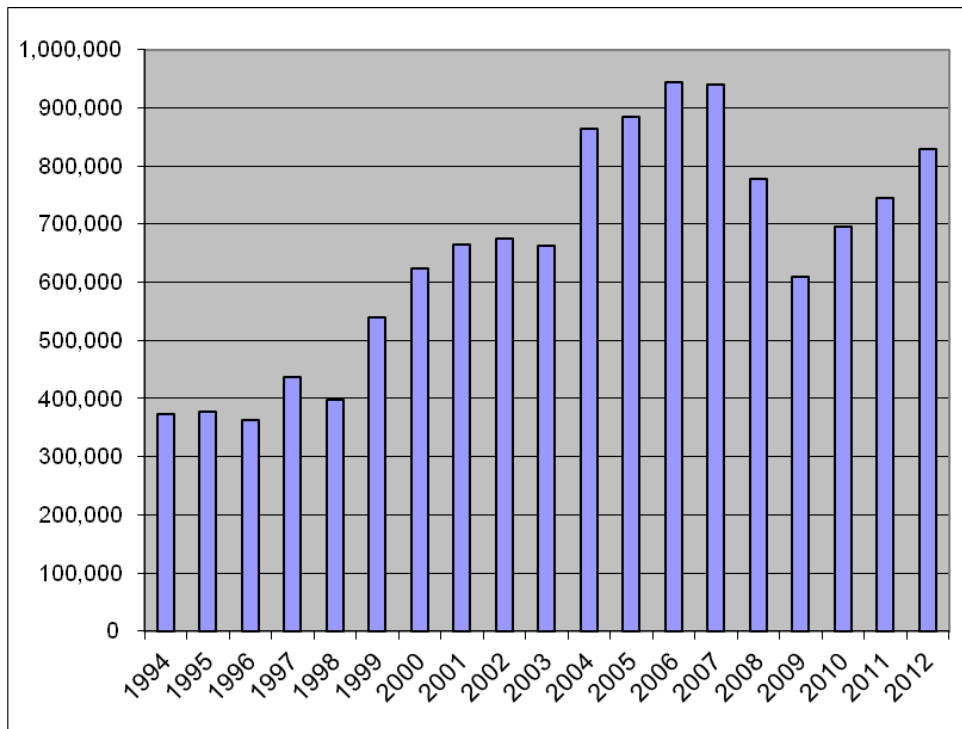
In addition, the number of Riau Islanders who visit Singapore for pleasure increases every year. For example, according to one of the interviewees, travel to Singapore for pleasure became more and more affordable for Riau Islanders as their purchasing power increased annually⁹⁰. During my fieldwork in Batam and Bintan, I also met several people who have visited Singapore for leisure. The role that Indonesian passengers play in the ferry transportation has become bigger.

To shed more light on the above situation, the statistics of the Singapore Tourism Board and Batam are reviewed. The compilation of statistics on the number of Indonesians who entered Singapore via sea started in 1994. At that time, 0.37 million Indonesians entered Singapore via sea (see Fig 4.2). The number increased until 2006 when it reached 0.94 million. Despite a dip in 2009, it recovered to 0.83 million in 2012⁹¹. The number of Indonesian passengers increased steadily. Fig 4.3 shows the number of Indonesians who left for Singapore and Malaysia from Batam between 2000 and 2012. The point is that there were more passengers who left Batam than those who came to Batam. The former exceeds the latter within the range of 60,000 to 220,000 people annually between 2000 and 2012. It is proposed that some of returning Indonesian passengers did not go through Batam. This finding supports the view that Batam is a transit point for Indonesians from other areas.

⁹⁰ Interview at Indo Falcon Shipping & Travel Pte Ltd in July 2013

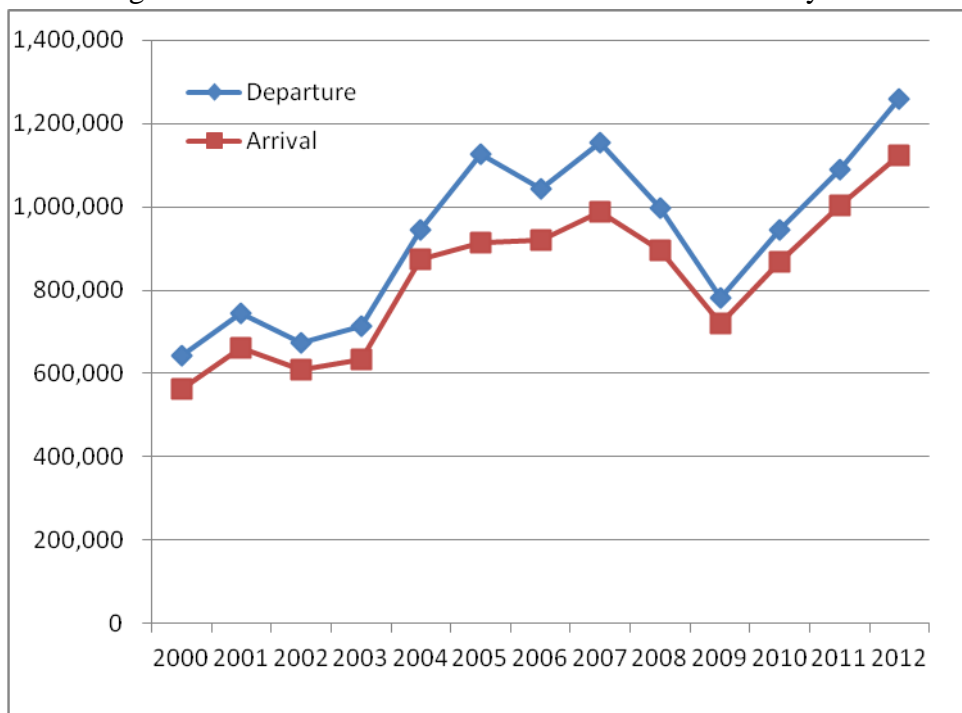
⁹¹ According to Lyons and Ford (2007), this figure also includes some Indonesian foreign domestic workers, since many of them enter Singapore on a social visit pass before receiving an official work permit.

Fig 4.2: Number of Indonesians who Entered Singapore by Sea



Source: Singapore Tourism Board, *Annual Tourism Statistics* (various years)

Fig 4.3: Number of Indonesians who Went Overseas by Sea



Source: Batam Port Corporation (Author's collection)

4.3 The Role of General and Specific External Factors

The IMS-GT brought about an impact on the ferry transportation over a long time. However, it was occasionally affected by both general and specific external factors as discussed below.

During my fieldwork, I interviewed ferry operators regarding general factors that affected their business. These included the Asian Financial Crisis (1997), the *Reformasi* (= political changes in Indonesia in 1998), the formation of the Riau Islands Province (2002), the SARS outbreak (2003) and the formation of Free Trade Zone (FTZ) in Batam, Bintan, and Karimun Island (2009). According to them, the effects of economic-related events were significant. Two of them answered that events such as the *Reformasi*, the formation of the Riau Islands Province and FTZ did not affect the number of the passengers substantially. One reason is that the *Reformasi* happened in Jakarta, far away from Batam. The other reason is that political events such as the *Reformasi* did not affect their business because they operated ferries on the sea, not on land. Instead, other events such as the Asian Financial Crisis and SARS affected their business significantly. Operators' annual reports confirmed this view because one operator experienced a 17% decrease in the total passenger volume in 1998 due to the Asian Financial Crisis. In 2003, another operator experienced a 15% drop in passenger volume due to the SARS outbreak⁹². Unexpectedly, the haze problem and increases in the fuel price also affected their business. The haze caused many cancellations. The fuel price has remained high since 1997 and it forms more than half to three quarters of the operators' expenditure⁹³. In comparison, the effects of political-related events were relatively small: none of them stated the formation of the Riau Islands Province and

⁹² Sembawang Marine & Logistics Ltd, *Annual Report 1998*, p.21 and Penguin Boat International Ltd, *Annual Report 2003*, p11.

⁹³ Interview at Indo Falcon Shipping & Travel Pte Ltd in July 2013, at Batam Fast Pte Ltd and Berlian Ferries Pte Ltd in August 2013.

FTZ as contributory factors. Rather, the effects of the Asian Financial Crisis, SARS, increases in the fuel price and the haze were more significant.

Considering these replies, increases in the fuel price, especially since the late 1990s, need to be investigated as a specific factor affecting the ferry industry. Although ferry companies operating in the region around Singapore are exempted from paying fuel tax to each government of the GT⁹⁴, the increases in the fuel price were highlighted in their annual reports. *Penguin Annual Report* stated a sharp annual increase in the fuel price three times since the late 1990s: (1) more than 55% in 1999, (2) not less than 45% in 2001 and (3) 40% in 2004. As a result, operators took various countermeasures such as collaboration with several operators through Code Share Agreements⁹⁵ and the introduction of a fuel surcharge for ferries departing from Singapore in August 2005⁹⁶. Thus, one may speculate a decrease in the number of ferry trips due to an increase in the fuel price.

In addition, competition in the ferry industry needs to be discussed as the other specific factor. It exists in every industry, and the ferry operations in the Riau Islands are no exception. The 1990s was an expansion era. Although a few operators stopped their operations, others expanded their activities at that time. However, this business environment began to change since the late 1990s. Competition was highlighted in operators' annual reports. For example, *SML Annual Report 1997* pointed out keen fare competition as one of the reasons of dampened profitability in its Riau Islands services. *Penguin Annual Report 2002 to 2006* reported intensifying competition and the ensuing erosion of ticket prices. They even implied the possibility of the self-elimination of weaker competitors. As expected, a few operators left the market,

⁹⁴ Interview at Indo Falcon Shipping & Travel Pte Ltd in July 2013. The reason is that they cross the border.

⁹⁵ Penguin Boat International Ltd, *Annual Report 2000, 2002 and 2004*

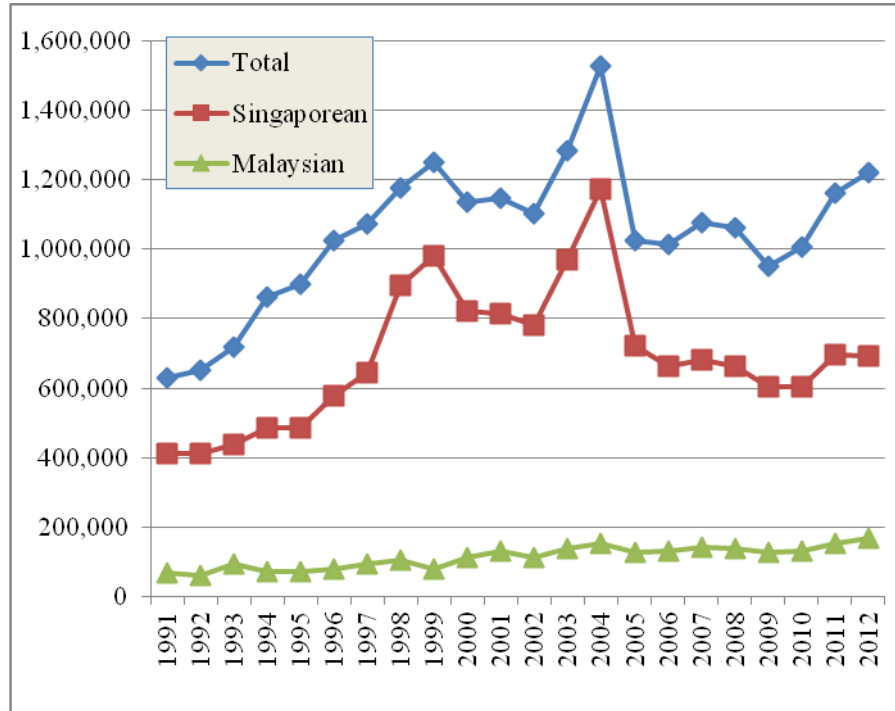
⁹⁶ *Fast Ferry International*, "Singapore Operators Face Higher Cost and Lower Traffic", Mar 2007, pp.31-33.

and code-sharing operations started in a few routes to deal with competition⁹⁷. Under these circumstances, three more operators entered the market since the 2010s, and existing operators face keen competition again. On the other hand, some operators formed a consortium for mutual benefit in the Riau Islands–Johor State routes. They change time slots regularly and split the revenue equally.

The points discussed so far were also observed in official statistics. In Batam, the number of foreign tourist arrivals generally was increasing until 2004 when it reached 1.52 million (see Fig 4.4). The Asian Financial Crisis in 1997 should have affected the number of tourists, but it kept increasing mainly due to the opening of the Waterfront resort area in the late 1990s and an increase in Singaporeans' purchasing power brought by the depreciation of the Indonesian Rupiah. Therefore, it is estimated that these factors reversed a decline in the total number of passengers. The reason the number increased during the SARS outbreak in 2003 is not clear. Since 2004, it has decreased, reaching 0.95 million in 2009. It recovered to 1.22 million in 2012.

⁹⁷ Code-sharing operations do not currently exist.

Fig 4.4: Number of Foreign Visitors to Batam by Nationality



Source: *Batam in Figures* (various years)

Visitors' nationalities vary but the majority is Singaporeans. They consistently form 50-70% of total foreign visitors since the 1990s. The second biggest group is Malaysians who have steadily formed approximately 10% every year. In 2011, the ratio of Singaporeans was about 60% of the total number of foreign visitors followed by Malaysians, South Koreans, Filipinos and Indians (see Batam in Table 4.3). However, it is crucial to point out that the number of Singaporeans visiting Batam shows a downward trend compared to the number of overall foreign visitors (see Fig 4.4). Although the latter is recovering to the level in 2000, the former still shows a sign of stagnation. It is suggested that Singaporean's interests in Batam have decreased. Instead, the passenger number of other nationalities such as Malaysians showed an upward trend.

4.4 Case Studies

In this section, three international ferry companies are studied for insights into the sea transportation in light of the IMS-GT. Firstly, Bintan Resort Ferries Pte Ltd is researched because of its unique ownership. A government-linked corporation in Singapore and an Indonesian conglomerate jointly own the company. Secondly, Indo Falcon Shipping & Travel Pte Ltd is discussed to trace its trajectory for more than 20 years as a medium-scale operator in the region. Finally, Batam Fast Ferry Pte Ltd is investigated for its development during nearly 30 years as a big ferry operator.

4.4.1 Bintan Resort Ferries Pte Ltd

Bintan Resort Ferries Pte Ltd (BRF) began its operation in 1994. Thus far, its business environment has been favorable as a whole. BRF was set up as a joint venture by PT. Bintan Resort Corporation, Jurong Marine Services Pte Ltd and Kvaerner Fjellstrand (S) Pte Ltd⁹⁸. BRF launched its service for the opening of the Bintan Beach International Resort (BBIR). BRF operated two daily return trips at the beginning⁹⁹, and it has gradually increased the number of trips since. As of 2014, it operates 5 to 7 daily return trips between Tanah Merah and Bandar Bentan Terani (BBT), and 1 to 2 trip(s) on weekdays between Tanah Merah and Lobam¹⁰⁰.

BRF's shareholders have changed since beginning operations, but BRF is fundamentally backed by large companies in Singapore and Indonesia. Before its restructuring exercise in 2006, BRF was owned by SCI Group (30%) and PT. Bintan Resort Cakrawala (70%). Temasek, an investment company in Singapore, was the

⁹⁸ *The Business Times*, "Second Ferry Joins Bintan Resort Service", May 18, 1995 (Digital Source). The last company is a Norwegian ferry manufacturer which supplied the first two ferries.

⁹⁹ *The Business Times*, "More Ferries to Bintan", Jun 10, 1995 (Digital Source).

¹⁰⁰ Singatac Engineering Pte Ltd, 2011, *Singatac Offshore Centre @ Bintan*, p.4 (accessed in April 2014, Digital Source). However, the timetable for the TMFT-Lobam route is not released in BRF's website.

ultimate holding company of the former and the Salim Group, an Indonesian conglomerate, had a strong relationship with the latter. After the restructuring exercise, approximately 88% shares of BRF were owned by Gallant Venture Ltd, an investment holding company. Their key shareholders include the Salim Group and Sembcorp Industries Ltd, a government-linked corporation in Singapore¹⁰¹. Gallant Venture regards this ferry business as its resort operations business, one of its four business pillars¹⁰². It seems that BRF is an outcome of the IMS-GT considering its shareholders.

The Tanah Merah–BBT route is operated by only BRF right from the start, but Mozaic Hotels and Resorts Pte Ltd established a new route in a neighboring port in 2012. A competitor appeared for the first time in eighteen years. However, as BRF's related company owns and operates the BBT terminal, other existing operators apparently find it difficult to enter into BRF's route. As a result, they set a relatively high fare compared to the others, especially during the weekends¹⁰³. It is suggested that BRF's ferry operation business is relatively still stable.

4.4.2 Indo Falcon Shipping & Travel Pte Ltd

Indo Falcon Shipping & Travel Pte Ltd (Indo Falcon) was established in 1990 as a shipping agent to an Indonesian company with one ferry. Its management had predicted a tremendous growth in the area and expected high margins from the ferry business. Besides ferry operation and chartering, their business includes a shipping and

¹⁰¹ Gallant Venture Ltd, 2006, *IPO Prospectus: Prospectus Dated 28 April 2006*, pp.58, 63, 64 (Digital Source).

¹⁰² Gallant Venture Ltd, *Annual Report 2011*, p.17. BRF is currently a subsidiary of Gallant Venture which holds more than 90% of BRF's shares.

¹⁰³ I compared the BRF fare (TMFT–Bintan route) with the SINDO one (TMFT–Tanjung Pinang route) in March 2014 by checking each operator's website. The former (S\$82 for a return trip for an adult during weekdays) was higher than the latter (Around S\$48 for an adult everyday) even though SINDO operates a longer route.

a travel agent¹⁰⁴. Indo Falcon is one of the oldest ferry operators in this area. As of March 2014, they ply the Harbour Front–Tanjung Balai, Tanah Merah–Nongsa and Tanah Merah–Tanjung Pinang routes.

In the 1990s, there was a capital relationship between Indo Falcon and Penguin Boat International Limited (Penguin). In 1993, Heng Kheng Seng, the founder of Penguin, took a 25% stake in Indo Falcon as an individual. Penguin also chartered its ferry to Indo Falcon in the same year. In 1997, Penguin acquired Heng's entire stake in Indo Falcon¹⁰⁵, although they apparently sold the stake thereafter.

Under the implementation of the IMS-GT, Indo Falcon has changed its operating routes after taking into account competition with other operators. As a medium-scale operator, they chose routes from Singapore, which were less competitive. In the early 1990s, they operated the routes to and from Sekupang and Tanjung Pinang. In the late 1990s, they added the routes to and from Tanjung Batu and Waterfront, while they terminated the route to and from Sekupang. In the 2000s, they added the route to and from Tanjung Balai, while they terminated the routes to and from Tanjung Batu and Waterfront (although irregular trips still remain). The reasons were low passenger loads and fierce competition from other operators¹⁰⁶. Despite several such adverse circumstances, Indo Falcon grew steadily over these twenty years.

4.4.3 Batam Fast Ferry Pte Ltd

Batam Fast Ferry Pte Ltd (Batam Fast), one of the biggest operators in the area, started its operation between Singapore and Batam in 1985 with two ferries, before the IMS-GT program started. As mentioned before, Batam was a transition point from other Indonesian islands such as Sumatra, Kalimantan and neighboring small islands.

¹⁰⁴ Interview at Indo Falcon Shipping & Travel Pte Ltd in July 2013

¹⁰⁵ Penguin Boat International Ltd, *Prospectus dated 6 October 1997*, p.24.

¹⁰⁶ Interview at Indo Falcon Shipping & Travel Pte Ltd in July 2013

Passengers from these islands entered Singapore via Batam. Batam Fast was established for the convenience of those passengers¹⁰⁷. It is estimated that PT. Bintan Baruna Sakti was established first and Seaflyte Ferry Service Pte Ltd (Seaflyte) was established later. Subsequently, Seaflyte, the operating title for Sakti, was restructured as Batam Fast in 2006 (*Fast Ferry International*, Sep 1993: 29 and Mar 2007: 32). Batam's status as a transit point, discussed in section 4.2, has already started in the 1980s.

Batam Fast's activity has kept pace with the overall ferry network in the Riau Islands. Its activities continuously increased until 1997 when they introduced four ferries. Subsequently, it remained relatively constant until 2001. Since the 2000s, the number of its ferry trips decreased slightly from 38 daily return trips in 2001 to 31-34 trips in 2014¹⁰⁸. They operate four routes with thirteen ferries as of March 2014: the Harbour Front (HF)–Batam Centre route, the HF–Sekupang route, the HF–Harbour Bay route and the Tanah Merah–Nongsa route. They used to operate routes to other ports such as Tanjung Pinang, Tanjung Balai and Lobam, but they stopped these operations in the 2000s. Within the Riau Islands, their operating routes currently focus only on Batam. They expanded and adjusted their operation network in accordance with the development of the IMS-GT program.

4.5 Conclusion

For international routes, the ferry operators need to observe not only the laws and the regulations in the countries concerned but also international regulations. Among the three countries, the laws and the regulations in Singapore are the most stringent. International regulations have become increasingly important for ferry

¹⁰⁷ Interview at Batam Fast Pte Ltd in August 2013

¹⁰⁸ Batam Fast's website (accessed in April 2014), *Fast Ferry International*, Mar 2001 and Mar 2007

operators to abide by because requirements from the authorities have gradually expanded due to security and safety reasons, especially since the September 11, 2011 attacks.

As for ferry ports, the Singapore government constructed two terminals during the 1990s to cater to the increasing number of passengers, and this strategy succeeded. In the Riau Islands, ports for resort tourists opened in the 1990s and they are operated by their respective developers. The unique point in Batam is the role of Batam Indonesia Free Zone Authority (BIFZA) as it is actively involved in upgrading the port facilities in Batam. In the Johor State, administrators opened ports one after another to connect to Singapore. Unlike Singapore and Batam, the Johor authority does not put much emphasis apparently on upgrading its port terminals.

The introduction of the Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT) accelerated the expansion of the ferry network. As a direct impact factor, the Batamindo Industrial Park (BIP) as well as other industrial estates in Batam significantly contributed to an increase in the number of ferry trips between Singapore and Batam. The resort project in Bintan was one of the IMS-GT flagship projects, and it created a new route. As an indirect impact factor, ports such as Tanjung Balai and Tanjung Pinang flourished due to the “night” business since the mid-1990s. However, the Riau Islands became less vibrant in the 2000s compared to the 1990s. The number of foreign tourists to Batam reached its peak in 2004, but decreased thereafter. In 2012, Batam, Tanjung Pinang and Tanjung Balai recovered 80%, 50% and 40% respectively of foreign passengers compared to their peak periods, while the Bintan resort attracted a stable number of visitors.

The number of Indonesian passengers has increased steadily. Not only Riau Islanders, but also Indonesians from other parts of Indonesia cross the borders for

business and pleasure. The Riau Islands has become increasingly essential as a transit point for them and the role that Indonesian passengers play in the ferry transportation has become bigger in comparison to foreign passengers.

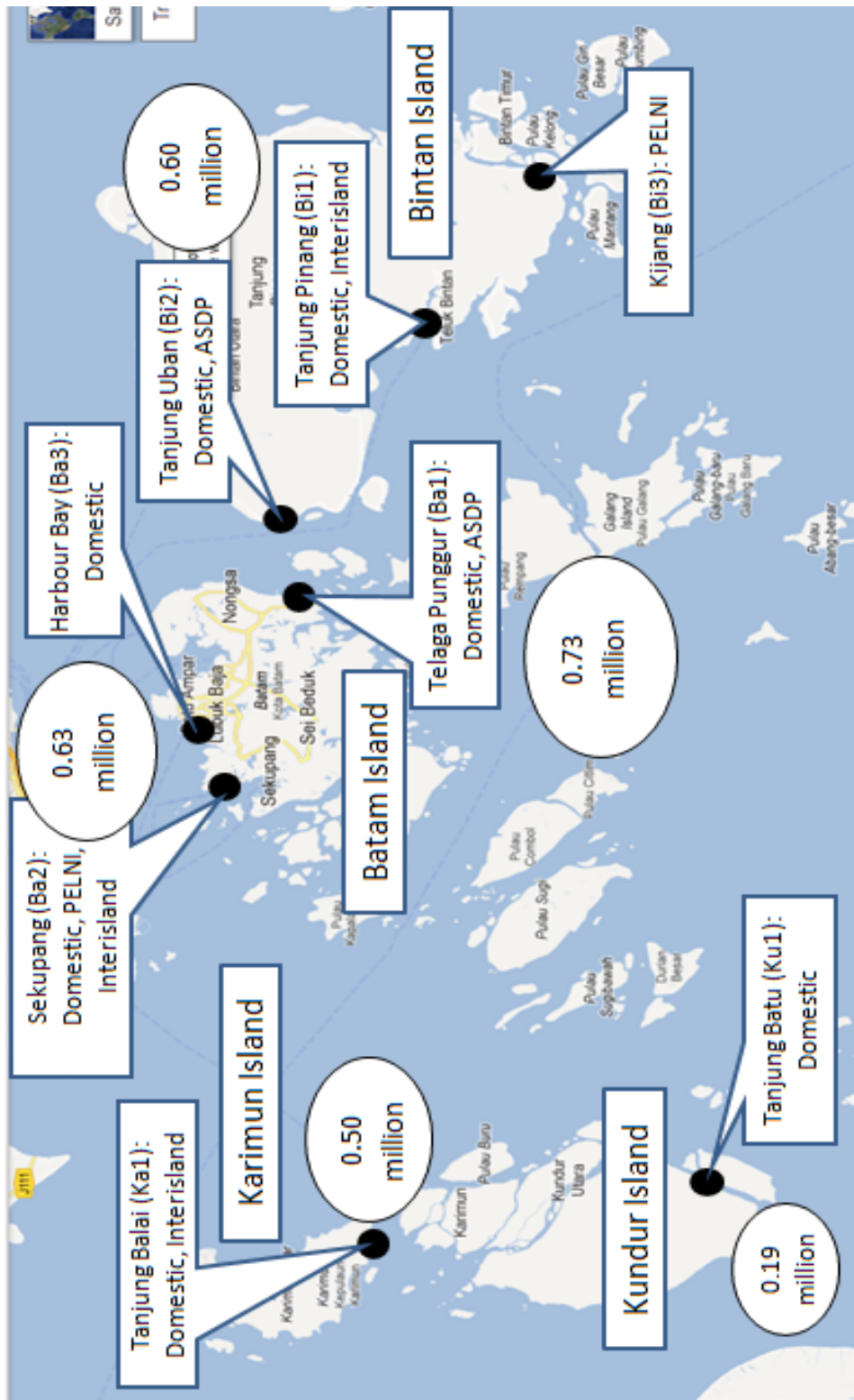
External factors have occasionally affected the ferry transportation in the Riau Islands. Since the late 1990s, general factors such as the Asian Financial Crisis and the SARS outbreak in 2003 occurred one after another. In addition, specific factors such as sharp increases in fuel prices since the late 1990s and severe competition among the ferry companies made a few operators leave the market. Consequently, operators implemented various countermeasures such as introducing fuel surcharges and decreasing the number of trips. Increases in fuel prices were especially crucial in accelerating the decrease in the number of ferry trips.

Finally, three operators are investigated as case studies. Despite competitor's appearance in 2012, the business environment of Bintan Resort Ferries has been favorable as a whole due to the stable support of big corporations. Batam Fast has expanded and adjusted its operation network in accordance with the development of the IMS-GT program, while Indo Falcon has changed its operating routes in consideration of competition with others since the 1990s.

CHAPTER V:
DOMESTIC FERRY TRANSPORTATION IN THE RIAU ISLANDS:
TRENDS, PATTERNS AND DETERMINANTS

This chapter examines the domestic ferry transportation in the Riau Islands, especially Batam, Bintan and Karimun Islands. Section 5.1 presents the changing trends and patterns of the domestic ferry network in the Riau Islands, divided into three periods: the 1990s, the 2000s and the year 2013. Sections 5.2 and 5.3 discuss these changes from various perspectives. Section 5.2.1 introduces the first perspective in terms of the role of the Indonesian government. Section 5.2.2 presents the second perspective in terms of the impact of the Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT), and the role of external factors. Section 5.3 discusses the third perspective through the case studies of two state-owned enterprises to illustrate their roles in the Riau Islands. These are PT. Pelayaran Nasional Indonesia (PELNI) and PT. ASDP Indonesia Ferry (ASDP).

Fig 5.1: Domestic Ports in **Batam** (3), **Bintan** (3), **Karimun** (1) and **Kundur** (1) Islands



Source: Google Map (Labels prepared by the author)

5.1 Domestic Ferry Transportation in the Riau Islands: Trends and Patterns

5.1.1 Introduction

This section focuses on domestic routes and ports. In Batam, Bintan and Karimun, there are seven domestic passenger ports: three in Batam, three in Bintan and one in Karimun (see Fig 5.1). In addition, Tanjung Batu (Ku1) in Kundur Island is an intersection of the sea routes in the Riau Islands. In Batam, there are three domestic passenger ports: Telaga Punggur (Ba1), Sekupang (Ba2) and Harbour Bay (Ba3). Telaga Punggur, the eastern gateway into and out of Batam, includes a domestic terminal (see Fig 5.2) and the PT. ASDP Indonesia Ferry (ASDP) terminal. Sekupang, the western gateway into and out of Batam, includes a domestic terminal (see Fig 5.3), an interisland port and a big berth used by PT. PELNI. In Bintan, there are three domestic ports: Tanjung Pinang/Sri Bintan Pura (Bi1), Tanjung Uban (Bi2, the speedboat¹⁰⁹ terminal and the ASDP terminal) and Kijang (Bi3, for the PELNI's exclusive use). In Karimun, the Tanjung Balai port (Ka1) has two separate terminals: a domestic and an interisland terminal (Sri Tanjung Gelam, see Fig 5.4). Its interisland terminal is in the vicinity of the domestic terminal.

Fig 5.2: Telaga Punggur Port (Domestic)



Source: Author's collection

¹⁰⁹ A speedboat (SB) is a passenger boat which has the engines outside its hull, while a ferry refers to a passenger speed ship which has engines inside its hull (interview at Batam Port Office in October 2013).

Fig 5.3: Sekupang Port (Domestic)



Source: Author's collection

Fig 5.4: Tanjung Balai Port (Interisland)



Source: Author's collection

For domestic routes, there are several long- and middle-distance operators and many short-distance operators. In this research, long- and middle-distance routes are defined as fixed routes with fixed prices and timetables. Long-distance routes refer to those that connect the Riau Islands with distant islands such as Sumatra, Anambas and Lingga Islands. Middle-distance routes are routes to neighboring islands such as from Batam to Bintan, Karimun and Kundur. A short-distance route is defined as a fixed route with a fixed price but without a timetable. For this, operators primarily use a small boat with motors. This research does not discuss this category.

In the literature, state-owned enterprises are frequently discussed [see, for example, Rutz and Coull (1996) and Centre of Policy Analysis (2011)]. However, it is also recognized that private operators play a big role in the Riau Islands, and as such, their operations and contributions are discussed in this chapter. As for the ownership of domestic operators, two enterprises are state-owned and headquartered in Jakarta. One is PT. PELNI which operates long-distance routes to connect the Riau Islands with distant islands such as Java and Sumatra. The other is PT. ASDP Indonesia Ferry which operates the routes between Batam and the neighboring islands. Other operators are under private management. They operate ferries and speedboats (see Figures 5.5 and 5.6). All of them are regional enterprises and none of them are headquartered in Jakarta.

Fig 5.5: A Ferry



Source: Author's collection

Fig 5.6: A Speedboat

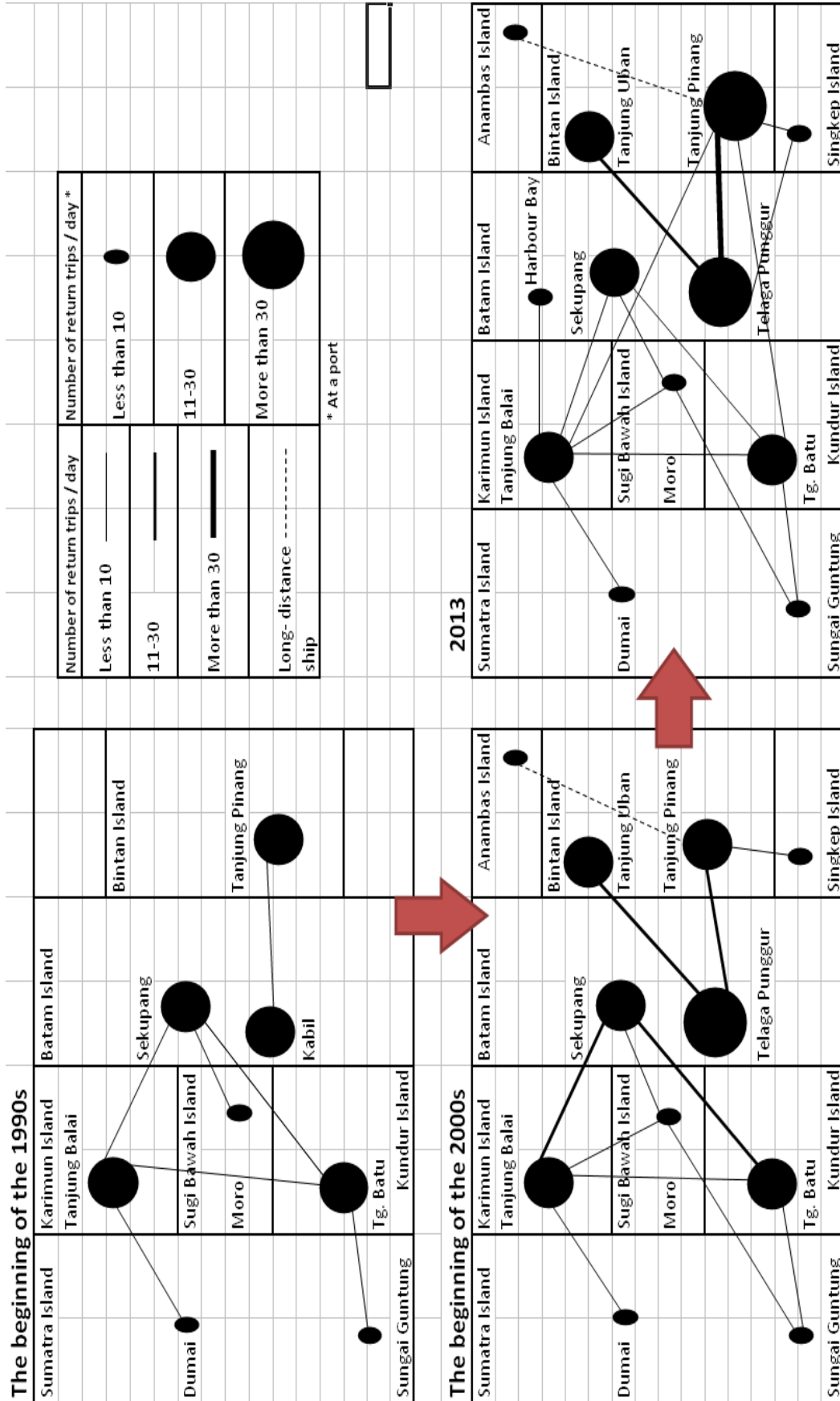


Source: Author's collection

Using these ferries and speedboats, in 2010, 0.6 million passengers entered Tanjung Pinang, and in 2011, 1.41 million passengers entered Batam, 0.5 million to Tanjung Balai, and 0.19 million to Tanjung Batu (see Fig 5.1). Besides being the nexus for international routes, Batam is also the hub of domestic routes in the Riau Islands. In Batam, Telaga Punggor (with 0.73 million passengers) and Sekupang (with 0.63 million passengers) are its two major ports (*Kepulauan Riau in Figures*, 2011, and *Batam in Figures*, 2012).

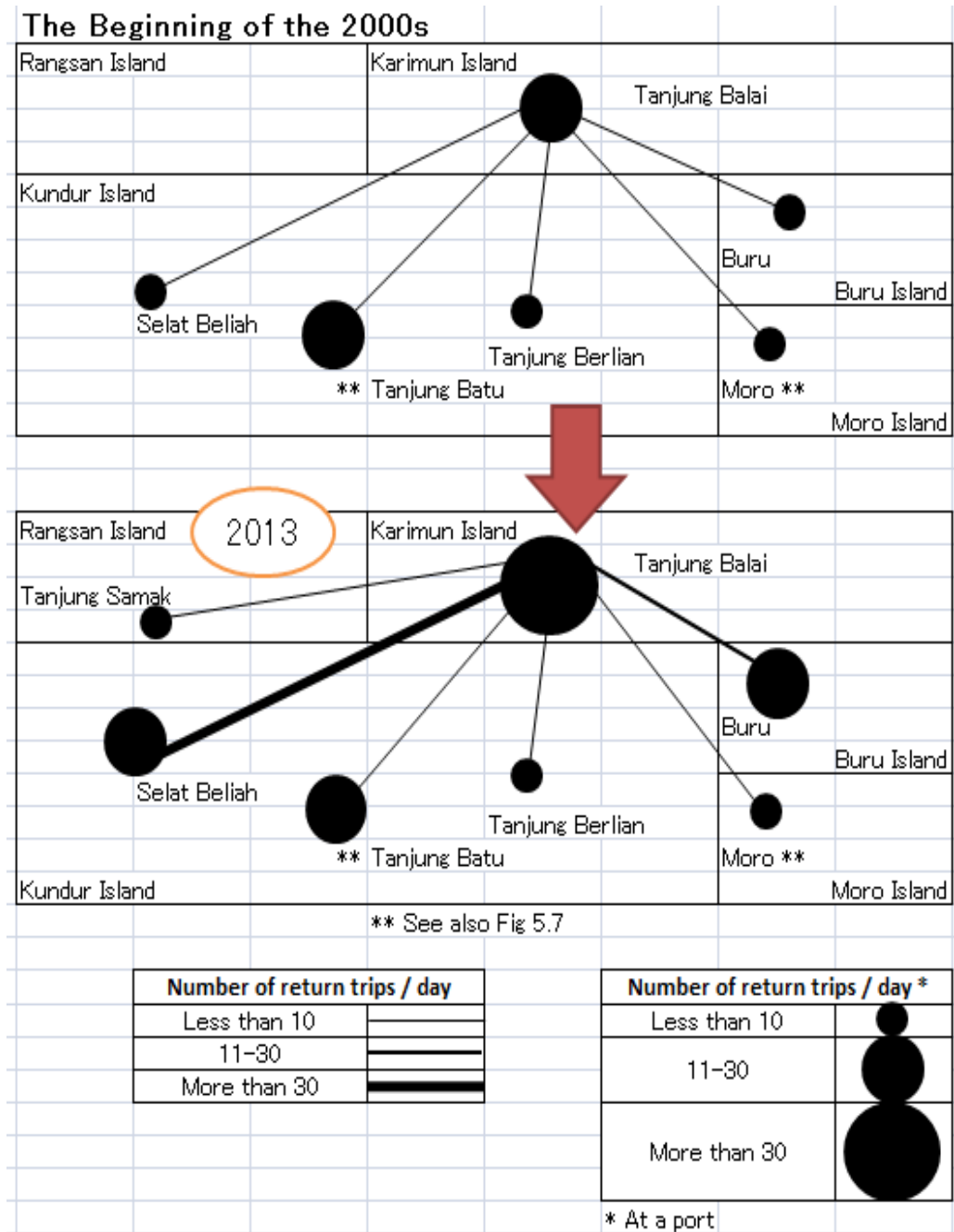
Based on information and interviews during my fieldwork, Figures 5.7 and 5.8 were drawn to indicate the changing trends and patterns of the domestic ferry networks in the Riau Islands and Tanjung Balai respectively. Only major routes are included in the figures. The periods in each figure were selected to understand the general trend in each decade. Therefore, they exactly indicate neither the peak nor bottom periods. The next three sections (5.1.2 to 5.1.4) discuss the changing trends and patterns in the domestic network in the three periods of the 1990s, the 2000s, and the year 2013. A summary is provided in section 5.1.5.

Fig 5.7: Changes of the Domestic Ferry Network in the Riau Islands



Source: Author's fieldwork

Fig 5.8: Changes of the Interisland Ferry Network around Tanjung Balai

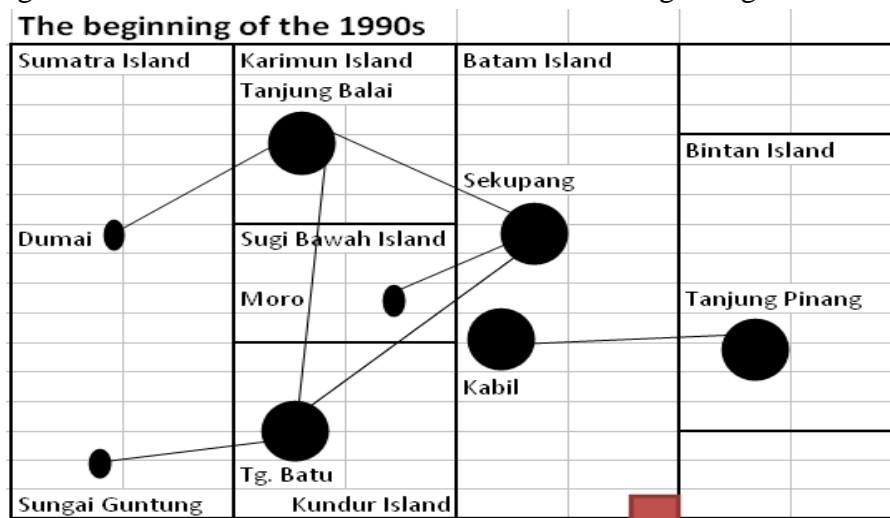


Source: Author's fieldwork

5.1.2 The 1990s

In the beginning of the 1990s, the ferry network in the Riau Islands was small (see Fig 5.7.a), using Kabil as the eastern and Sekupang as the western gateways respectively. From Kabil, the route was limited only to Tanjung Pinang, while there were a few routes from Sekupang.

Fig 5.7.a: The Network in the Riau Islands at the Beginning of the 1990s



Source: Fig 5.7 (p.106)

In Kabil, three groups of ferry operators were established in the 1990s. The first group is PT. Pelnas Baruna Jaya (Baruna, see Table 5.1). Its owner had the foresight that Batam would develop further and established the company in 1990. At that time, it plied roughly ten daily round trips between Kabil and Tanjung Pinang by speedboat. Subsequently, the function of Kabil was relocated to Telaga Punggur as the number of passengers increased in the mid-1990s. Besides this factor, the water in Kabil was shallow and only speedboats could call there. At that time, Baruna started to purchase ferries to replace speedboats. After the Telaga Punggur port opened, PT. Liba Marindo, the second group, started its ferry business. In the late 1990s, Baruna increased its number of trips from hourly to half-hourly departures. The economic crisis in 1997 did

not affect this route significantly because the ticket price remained reasonably affordable for passengers¹¹⁰.

The third group consists of operators which ply between Kabil and Tanjung Uban in Bintan Island. They started their operations before the Telaga Punggur port opened¹¹¹, which was before the mid-1990s.

Table 5.1: Ferry Operators in Telaga Punggur

Route	Operator
Telaga Punggur–Tanjung Pinang	PT. Liba Marindo (i), PT. Marinatama Gemanusa, PT. Pelnas Baruna Jaya,
Telaga Punggur–Tanjung Uban (by ro-ro ferry)	PT. ASDP Indonesia Ferry
Telaga Punggur–Tanjung Uban (by speedboat)	PT. Anugrah Jala Chandra, PT. Batam Putra Tempatan, PT. Cahaya Mulya, PT. Cakrawala Darat Daya, PT. Flora Perkasa, PT. Putra Abadi, PT. Surya Indah Abadi

(i) Ex-operator

Source: Author's fieldwork

Sekupang has two trunk routes. One leads to the north to various destinations such as Dumai and Pekanbaru in Sumatra Island via Tanjung Balai and several ports. This northern route connects the Riau Islands Province to the northern area in the Riau Province. The other route leads to the south to various destinations such as Sungai Guntung in Sumatra Island via Tanjung Batu/Moro and several ports. This southern route connects the Riau Islands Province to the Jambi Province as well as the southern area in Riau Province.

One of the operators in the northern route is PT. Pelnas Lestari Indomabahari, headquartered in Dumai (see Table 5.2). It started its ferry business in 1992. At that time, it plied the route between Batam and Dumai via several ports with one ferry. One of the purposes in establishing the company was to connect the Riau islands with the Riau mainland in Sumatra by ferry for the public. As it takes several hours to travel

¹¹⁰ Interview at PT. Baruna Jaya in September 2013

¹¹¹ Interview at PT. Baruna Jaya in September 2013

along this route, ferry trips were scheduled every two days. It purchased one more ferry in 1993, and increased the number of its ferries throughout the 1990s¹¹². Overall, the company had a good business environment in the 1990s due to the positive progress of the IMS-GT projects.

Table 5.2: Ferry Operators in Sekupang

Route	Operator and speedboat
Sekupang–Tanjung Balai–Northern Riau	PT. Arena (i), PT. Golden Mutiara Line (i), PT. Intran Wijaya (i), PT. Pelnas Baruna Jaya, PT. Miko Natalia, PT. Pelnas Batam Bahari Sejahtera,
Sekupang–Tanjung Batu–Southern Riau and Jambi	PT. Fajar Marindo Raya (i), PT. Marinatama Gamanusa, PT. Seatech Win
Sekupang–Moro–Southern Riau and Jambi	PT. Prima Rahmat Abadi, SB. Tenggiri (ii), SB. Kurnia (ii), SB. Indra Jaya (ii)

(i): Ex-operator, (ii): The name of a speedboat

Source: Author's fieldwork

One of the operators of the southern route is PT. Marinatama Gemanusa (Marina). It was founded in 1991 and is headquartered in Batam. At that time, it plied the route between Sekupang and Sungai Guntung in Sumatra Island via Tanjung Batu. In 1993, the route was extended from Sungai Guntung to Kuala Tungkal. In addition, Marina has operated four daily return trips between Sekupang and Tanjung Batu by speedboat since 1998¹¹³.

The 1990s also saw a succession of new private ferry companies following the development of the IMS-GT¹¹⁴. It is hypothesized that they established these companies because they predicted an increase in the number of passengers.

¹¹² Interview at PT. Pelnas Lestari Indomabahari in November 2013

¹¹³ Interview at PT. Marinatama Gemanusa in September 2013

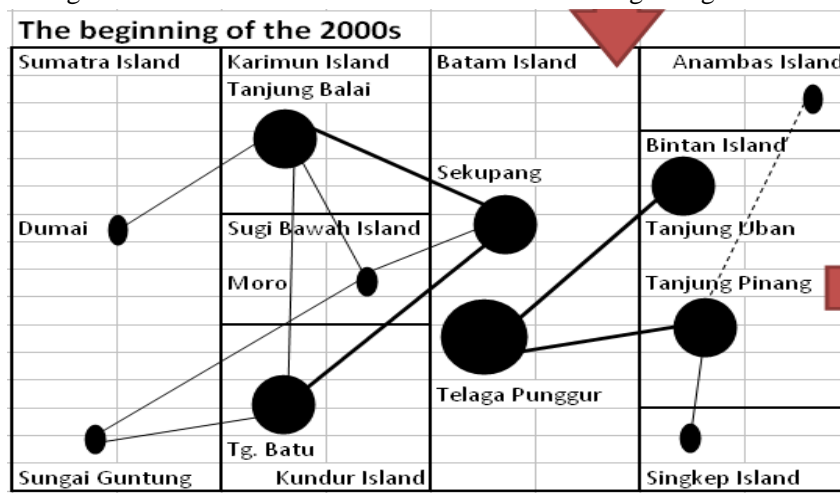
¹¹⁴ For example, PT. Arena, PT. Pelnas Batam Bahari Sejahtera and PT. Intran Wijaya were established during this period.

5.1.3 The 2000s

Batam

Due to the implementation of the IMS-GT projects, several ferry operators were established and the number of ferry passengers in the Riau Islands increased in the 1990s. Consequently, the beginning of the 2000s saw an expansion of the network compared to the 1990s (see Fig 5.7.b). The function of Kabil was relocated to Telaga Punggur in the mid-1990s. In several trunk routes departing from Telaga Punggur and Sekupang, it is estimated that more than ten daily trips were operated due to the establishment of new operators and an increase in the number of trips. Feeder routes were also established along the trunk routes. Thus, the number of ferry trips in Telaga Punggur reached more than 30 and Sekupang became a busy port. However, the operators in these two ports faced a different business environment in the 2000s.

Fig 5.7.b: The Network in the Riau Islands at the Beginning of 2000s



Source: Fig 5.7 (p.106)

In Telaga Punggur, the formation of the Riau Islands Province in 2002 was a big event for the operators. The Riau Islands Regency under the Riau Province became an independent province known as the Riau Islands Province. An interviewee at Baruna

suggested that some official employment was created due to this formation. As a result, several public officers in Tanjung Pinang started to settle down in Batam because of its convenient location, and continued to commute to Bintan by ferry. Ferries during peak periods have become crowded, and Baruna has increased the number of ferries since then¹¹⁵.

In Sekupang, the business environment began to deteriorate since the 2000s. PT. Arena and PT. Intran Wijaya left the market in the mid-2000s, and PT. Miko Natalia, established as an agent in roughly 1996, took over the latter's operation¹¹⁶. In addition, other companies apparently stopped their operations¹¹⁷. According to one ferry operator, there used to be eight ferry operators with a total of thirteen ships serving domestic routes. Three of them with a total of six ferries shut down in mid-2006 (*The Jakarta Post*: Jan 17, 2007).

Tanjung Pinang and Tanjung Balai

Outside Batam, Tanjung Pinang and Tanjung Balai are also hubs of the domestic ferry networks in the Riau Islands¹¹⁸. In Tanjung Balai, there are two domestic terminals: a domestic and an interisland terminal. The routes from the interisland terminal are discussed here as they function as crucial connecting routes to the neighboring islands.

In Tanjung Pinang, the beginning of the 2000s apparently saw the start of the development of a domestic ferry network (see Fig 5.7.b). The destinations, except for Batam, were limited to a few places such as Singkep Island. New routes had been

¹¹⁵ Interview at PT. Baruna Jaya in September 2013

¹¹⁶ Interview at PT. Pelnas Lestari Indomabahari in November 2013

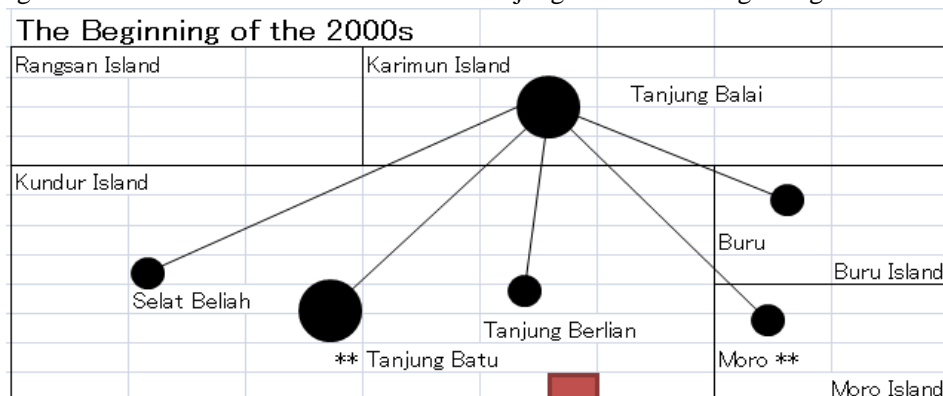
¹¹⁷ They include PT. Fajar Marindo Raya and PT. Golden Mutiara Line, judging from *The Jakarta Post* ("Tough Times for Batam Ferry Operators as Costs Increase", Jan 17, 2007, Digital Source) and observation during my fieldwork.

¹¹⁸ As the route between Tanjung Pinang and Telaga Punggur is discussed in the Batam section, the other routes from Tanjung Pinang are investigated here.

established since. On the one hand, several *ferry* operators have started to serve the ports with more arrivals and departures mainly since the 2000s: to Dabo in Singkep and Daik in Lingga Island (which operated for more than ten years), to Dumai via several ports (three years), and to Anambas Islands (more than fifteen years). These routes, except the one to Anambas Islands, are operating on a daily basis. On the other hand, several *speedboat* operators have started to serve the ports with fewer arrivals and departures: to Tanjung Batu via several ports (operating for approximately ten years), Selat Beliah in Kundur via several ports (three to five years) and Lobam in Bintan (two years). All these routes are served daily¹¹⁹. The speedboat operations are apparently a new trend.

In Tanjung Balai, the network of the interisland routes was small at the beginning of the 2000s (see Fig 5.8.a). Although there were already five destinations, the number of daily ferry trips in each route was less than ten. Operators serve these routes by speedboat and small ferry (see Fig 5.9). Among them, two trunk routes are investigated: Tanjung Balai–Selat Beliah and Tanjung Balai–Tanjung Berlian.

Fig 5.8.a: The Interisland Network around Tanjung Balai at the Beginning of the 2000s



Source: Fig 5.8 (p.107)

¹¹⁹ A brief Interview with a ticket booth staff in Tanjung Pinang in October 2013

Fig 5.9: A Small Ferry



Source: Author's collection

The route to Selat Beliah apparently existed since the 1990s. According to the employees from one operator PT. Lompo Batteng (Lompo, see Table 5.3), they started their business in 2002. Before that, only one operator plied the route daily. Lompo operated roughly nine daily return trips due to a good financial condition. Subsequently, several operators entered the market one after another. The fourth operator, PT. Lautan Inti Mega, joined this market in 2005. In the late 2000s, PT. Terra Joan Jaya started its operation by speedboat. Two other ferry operators have also entered this market since¹²⁰. Based on my interviews, Lompo's employees recalled that the number of passengers in this route increased significantly at the beginning of the 2000s. Subsequently, it increased at a more gradual pace.

The route to Tanjung Berlian has existed since the 1990s. One employee from PT. Ratu Indah Permai stated that it started operating this route in 1996 with a daily return trip. Before that, a cargo ship was the sole operator. They purchased two speedboats in the mid-2000s, increasing the number of daily trips to three. Around 2010, a new operator started its speedboat service with two trips¹²¹. Based on my

¹²⁰ Interview at PT. Lompo Batteng in October 2013

¹²¹ A brief Interview with staff at PT. Ratu Indah Permai and PT. Sinar Romindo Indah in October 2013

interview, one employee recalled that the number of trips in this route had also increased in the 2000s.

Table 5.3: Operators and Agents in the Interisland Terminal, Tanjung Balai

Destination	Operator, Agent
Selat Beliah	PT. Lompo Batteng, PT. Lautan Inti Mega, PT. Terra Joan Jaya
Tanjung Berlian	PT. Latu Indah Permai
Buru	PT. Duta Bahari Sentosa
Tanjung Batu	PT. Pulau Muda Bahtera, PT. Sinar Romindo Indah, PT. Tirta Bahari
Moro	PT. Duta Bahari Sentosa, PT. Awang Pass
Tanjung Samak	PT. Awang Pass, PT. Pulau Muda Bahtera

Source: Author's fieldwork

5.1.4 The Year 2013

Batam

As of 2013, three groups of operators in Telaga Punggur have remained the same since the 1990s. What changed in recent years was that PT. Marinatama Gemanusa (Marina) bought out PT. Liba Marindo's business in 2011¹²². Thus, PT. Pelnas Baruna Jaya (Baruna) and Marina are currently the two big operators in Telaga Punggur, plying the route to Tanjung Pinang every 30 minutes during the day. As a result, passengers can board a ferry every fifteen minutes. These two companies also recently established new routes. Marina started new routes to Bintan resort (two daily return trips, but already abolished) and Singkep Island (daily) in 2012, while Baruna started a daily service to Singkep in 2013.

In addition, one group plies the route between Telaga Punggur and Tanjung Uban in Bintan in fifteen minutes by speedboat. They currently operate ferries every 30 minutes during the day. The main feature of this route is that several speedboat operators form a consortium and they operate by turns (see Table 5.1 for the operators).

¹²² Interview at PT. Baruna Jaya in September 2013. The company went bankrupt because of management issues.

The number of ferry trips in this route has remained almost the same since the 1990s¹²³.

In Sekupang, the structure of the two trunk routes (the northern and southern routes) also has remained the same since the 2000s. One of the operators of the northern route is PT. Pelnas Lestari Indomabahari (Dumai Express Group). As of 2013, Dumai Express operates three long-distance routes daily: the Dumai–Sekupang, Dumai–Tanjung Pinang, and Pekanbaru–Sekupang routes. Each route includes several port calls and a bus trip is included in the last one. In 2010, it extended the destination from Batam to Tanjung Pinang. It also operates a middle-distance route between Batam and Tanjung Balai twice a day.

There are two additional ferry operators for the northern route. One is PT. Miko Natalia (Miko) which began replacing speedboats with ferries since mid-2000s¹²⁴, and currently operate the routes between Tanjung Balai and Sekupang (four or five daily return trips), and between Tanjung Balai and Tanjung Batu (daily). The other is PT. Pelnas Batam Bahari Sejahtera (Batam Jet) headquartered in Batam. It started ferry operations for the Batam–Dumai route in 1996, and currently operates the same route daily with four ferries. According to one employee, Batam Jet and Miko started a joint operation between Batam and Selat Panjang in the Riau Province in 2010. Each company operates its ferry every two days, offering a daily service to passengers¹²⁵.

The second group includes PT. Marinatama Gemanusa (Marina) and PT. Seatech Win (Seatech). Their destinations are Sumatra Island via Tanjung Batu and several ports. Marina currently has 20 ferries and their routes cover three areas. One of them is Sekupang where they operate two southern routes by speedboat with approximately 70 seats: the Sekupang–Tanjung Batu and Sekupang–Kuala Tungkal routes via several

¹²³ A brief interview with a ticket booth staff in Telaga Punggur in November 2013

¹²⁴ Interview at the PT. Miko Natalia ferry counter in October 2013

¹²⁵ A brief Interview at PT. Pelnas Batam Bahari Sejahtera in October 2013

ports. Seatech is also a speedboat operator for the southern route, headquartered in Batam. In 2008, they started operating between Sekupang and Tanjung Batu with two daily return trips.

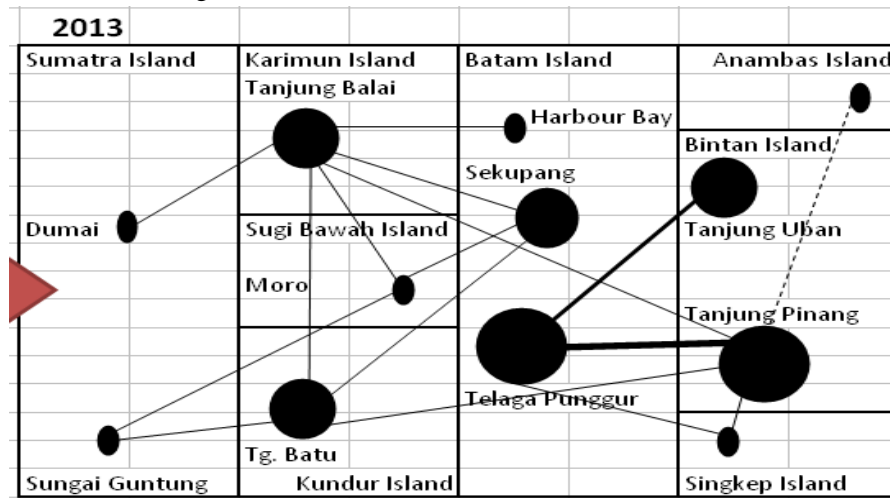
In addition, there are speedboat operators that serve the southern route. They call at Moro instead of Tanjung Batu on their way to Sumatra Island. One of the operators is PT. Prima Rahmat Abadi. Others just own a speedboat and consign ticketing service to agents. These operators currently serve a total of four daily return trips. Speedboats replaced wooden ships (*pompong*) and shortened travelling time. “More than 20 years” have passed since the first such operations¹²⁶.

Besides these two ports, the Harbour Bay domestic port opened next to its international port in 2012. PT. Ocean Baruna Jaya is currently the only operator, and plies the route between Harbour Bay and Tanjung Balai with six daily return trips by ferry. There used to be a few operators at the beginning, but they moved to Sekupang after several months.

As a result of the change in business environment since the 2000s, operators in the two ports in Batam have experienced quite different results (see Fig 5.7.c). On the one hand, in Telaga Punggur, the network expanded and the number of ferry trips to Tanjung Pinang increased to more than 30. It remains the busiest port in Batam. On the other hand, in Sekupang, the network has remained almost the same, but the number of trips decreased especially for the trunk routes to Tanjung Balai and Tanjung Batu. However, a sign of recovery was seen with a slight increase in the number of trips and the establishment of an operator since the 2010s. Besides, a new domestic port opened in Harbour Bay.

¹²⁶ Interview at Moro ticket counter in November 2013.

Fig 5.7.c: The Network in the Riau Islands in 2013



Source: Fig 5.7 (p.106)

Tanjung Pinang and Tanjung Balai

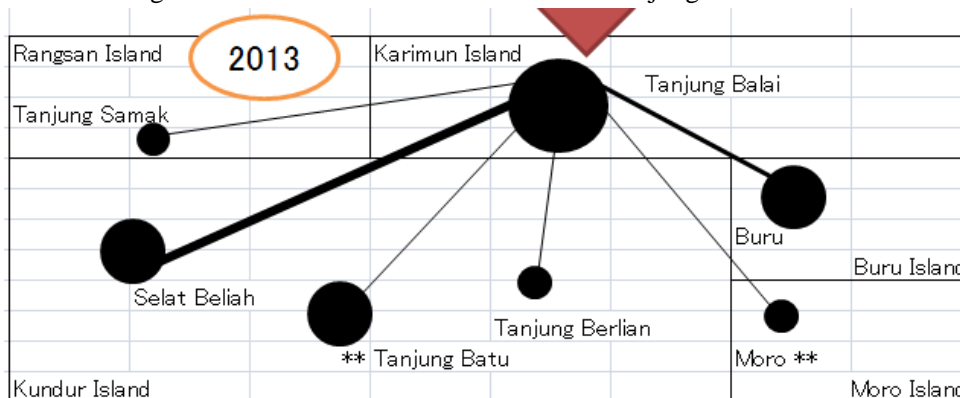
Due to the increasing number of ferry trips, Tanjung Pinang and Tanjung Balai began to function as hubs of their neighboring islands. Since the 2000s, the operators in both ports have had a favorable business environment. In Tanjung Pinang, the network especially within Riau Islands Province has expanded compared with the 2000s (see Fig 5.7.c). The number of ferry trips to Batam increased, and speedboat operators opened new feeder routes. Ford and Lyons (2006) claimed that the city was marginalized from the IMS-GT development, but it has instead strengthened its position at least in the domestic ferry network since the 2000s.

In Tanjung Balai, Sri Tanjung Gelam Port plays an important role as the interisland transportation hub. It connects Karimun and the neighboring small islands. More than one thousand passengers currently use this terminal daily¹²⁷, reaching more than 0.35 million annually. In 2013, ferry operators serve the following six destinations with more than one daily return trip: Selat Beliah, Tanjung Berlian, Buru, Moro,

¹²⁷ *Antara News*, “BUP Karimun Benahi Pelabuhan Antarpulau Jelang Lebaran”, Aug 6, 2012 (Digital Source).

Tanjung Samak, and Tanjung Batu (see Fig 5.8.b). When compared with the beginning of the 2000s (Fig 5.8.a), the number of ferry trips to Selat Beliah and Buru increased from less than 10 to more than 30 and 11, respectively. In addition, a new destination was added¹²⁸. Three major destinations are discussed briefly here: Selat Beliah, Tanjung Berlian and Buru¹²⁹. The route to Selat Beliah in Kundur Island is a trunk route from Tanjung Balai. Several companies operate approximately a total of 30 daily return trips to this port, being the busiest route from Tanjung Balai. The port in Selat Beliah is 20 minutes away by speedboat and 30 minutes away by ferry with roughly 40 seats.

Fig 5.8.b: The Interisland Network around Tanjung Balai in 2013



Source: Fig 5.8 (p.107)

The routes to Tanjung Berlian in Kundur Island and Buru can also be considered as trunk routes. Two companies operate a total of eight daily return trips to Tanjung Berlian. The trip takes roughly 30 to 40 minutes by speedboat. A speedboat stops by a few quays along the way. The route to Buru was established approximately fifteen years ago¹³⁰. There are eleven daily return trips served by five ferries. The number of

¹²⁸ The number of calls at Tanjung Batu shows more than eleven because it includes ferries to and from other destinations.

¹²⁹ Ferry operations to the other destinations such as Moro and Tanjung Samak started in the 2000s, but this section does not discuss them further because of their small number of trips.

¹³⁰ Interview with captain of Karomah III in March 2014

trips and ships in this route has remained almost the same since 2005.

5.1.5 Summary

When comparing the three periods in Fig 5.7, the network in Batam was small and the number of daily ferry trips was less than ten in each route in the beginning of the 1990s. Subsequently, the network expanded as a whole due to the implementation of the IMS-GT program, especially from Batam to Bintan, Karimun, Kundur and Sumatra Island. For trunk routes, the number of trips increased to more than ten. Various feeder routes were also established. The business environment in each port has changed since the beginning of the 2000s. On the one hand, the number of trips increased to more than 30 in Telaga Punggur and Tanjung Pinang. Tanjung Pinang has strengthened its position as a hub. On the other hand, the network almost remained the same but the number of trips decreased in Sekupang. In particular, the long-distance routes to Sumatra Island were heavily affected. Since the 2010s, however, this adverse business environment in Sekupang apparently recovered to some extent because of the establishment of a new operator and a slight increase in the number of trips.

In Tanjung Balai, when comparing the two figures in Fig 5.8, the network has expanded and the number of trips increased since the 2000s, especially in the route to Selat Beliah and Buru. From Tanjung Balai, passengers can access Singapore and Malaysia as well as other Indonesian islands directly. Therefore, Tanjung Balai is becoming the hub of the interisland, domestic and international routes even though the number of the IMS-GT projects in Karimun is limited.

5.2 The Changing Domestic Ferry Networks in the Riau Islands: Determinants

5.2.1 The Role of the Indonesian Government

This section reviews the role of the Indonesian government in the domestic ferry transportation by discussing the competency of the authorities of the ferry transportation, port administration and related laws and regulations.

In Indonesia, the Ministry of Transportation (= *Kementerian Perhubungan*) is in charge of sea transportation and within the ministry are the Directorate General of Sea Transportation (= *Direktorat Jenderal Perhubungan Laut*, DGST) and the Directorate General of Land Transportation (= *Direktorat Jenderal Perhubungan Darat*, DGLT). DGST issues licenses to ports and ferry operators. DGLT also plays an important role because it administers PT. ASDP Indonesia Ferry, a state-owned enterprise. In addition, the provincial and local governments as well as related organizations oversee certain aspects of the ferry transportation. The central, provincial and local governments assert different levels of authority. For instance, if the gross tonnage of a speedboat is less than 35, an operating company needs to register it in the provincial capital. A ferry or a speedboat which does not fall into this category needs to be registered with the central government in Jakarta¹³¹.

The administration of the domestic passenger ports in Indonesia is discussed as follows. Five kinds of organizations are involved in port administration in the Riau Islands: (1) Indonesia Port Corporation I (= *PT. Pelabuhan Indonesia I* or Pelindo I), (2) the Indonesian government, (3) Batam Indonesia Free Zone Authority (BIFZA), (4) the local government, and (5) the operator. The public ports in Indonesia are classified into commercial and non-commercial ports. Firstly, commercial ports are administered by Pelindo I-IV, while non-commercial ports are administered by the central government (Department of Transportation, 2007: 38). For example, international and domestic ports in Tanjung Pinang and Tanjung Balai are administered by Pelindo I,

¹³¹ Interview at Batam Port Office in October 2013

headquartered in Medan. The domestic port in Tanjung Batu is administered by the Ministry of Transportation, i.e. the Indonesian government. Secondly, domestic ports in Batam are administered by BIFZA directly. An organization like BIFZA does not exist in other areas in Indonesia. However, BIFZA's involvement in the port facility is passive, unlike for international ports. BIFZA relocated the function of Kabil to Telaga Punggur in the 1990s, but there is no active involvement thereafter. BIFZA also upgraded the international terminals since the 2000s, but there was no upgrading for the domestic ports. Thirdly, the local governments administer the ports for speedboats and small ships. For example, the interisland port in Batam for short-distance routes is administered by Batam Municipal Government. Finally, a ferry operator can administer a port in Indonesia. For example, PT. ASDP directly administers its own ports in the Riau Islands.

As for related Indonesian laws, Dick (2008) investigated there are three kinds of regulations on shipping: Law (*Undang-Undang*), Government Regulation (*Peraturan Pemerintah* or PP) and Presidential Instruction (*Instruksi Presiden*). The main one is Law No.17 in 2008 on Shipping. He discussed the difference between it and PP No.82 in 1999. Within them, three points are related to the ferry transportation in the Riau Islands. Firstly, the new law maintains an awkward double classification of maritime sectors. Article 6 divides water transport into three categories: (1) sea transport, (2) inland waterways (*sungai dan danau*), and (3) ferries (*penyeberangan*) connecting roads or railways between adjacent islands. In this research, operators are classified into ferries (PT. ASDP) or sea transport (all operators except ASDP). Thus, two different departments inside the ministry regulate the ferry transportation. Article 7 then sub-divides sea transport into four categories: (1) international shipping, (2) domestic shipping, (3) non-commercial carriers or ancillary shipping (*khusus*) and (4)

people's shipping (*rakyat*), the latter using *prahu* or 'traditional' vessels with less than 34 gross tonnage. Thus, operators in this chapter are classified into domestic or people's shipping.

Secondly, in recognition of regional autonomy since 2001, the authority for issuing licenses for people's shipping and ferries has been delegated where appropriate to provincial and local governments¹³². Therefore, it is suggested that local governments in the Riau Islands expanded their authorities for sea transportation. An increase in the number of speedboat operators, as discussed in section 5.1, is apparently due to this delegation. Thirdly, the possibility of Pelindo's restructuring is pointed out based on Article 344. Pelindo is a monopolistic and bureaucratic obstacle to the development of a more efficient port system in Indonesia (Dick, 2008: 392). It seems that Pelindo I does not put much emphasis on improving the port facilities in Tanjung Pinang and Tanjung Balai. Thus, there is a possibility of the ports being upgraded if a new organization is established.

In addition to these laws and regulations, the government involves itself with the ferry operation in other different approaches. It has active involvement in matters such as fares setting and operation times. For example, the ferry ticket price is strictly controlled by the government because of a subsidy (see section 5.2.2 for detail). In Batam, the operators cannot decide on a new fare by themselves. A meeting attended by all of them is held before its announcement. Thus, they basically cannot set a different fare with others pertaining to the same route¹³³. In addition, ferry operations at night are limited to domestic routes except in an emergency, while operators can ply the Singapore-Riau Islands routes late into the night. According to the harbor master in Sekupang, this is due to the difference in technology and numerous small islands in the

¹³² Author's fieldwork and Dick, Howard, 2008, "The 2008 Shipping Law: Deregulation or Re-regulation?", *Bulletin of Indonesian Economic Studies*, Vol.44, No.3, pp.390, 392.

¹³³ Interview at Batam Port Office in October 2013

Riau Islands without a lighthouse. In some cases, the involvement is relatively weak. For example, issuing ticket is done electronically for international routes, while conducted manually for domestic routes except a few cases. Issuing a ticket manually has its advantages, but overcapacity (the number of tickets sold exceeds the number of seats) is occasionally pointed out in the media for safety reasons¹³⁴. Judging from these media articles, the governments' involvement in the case of domestic routes ticketing is relatively passive.

5.2.2 The Roles of the Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT) and External Factors

This section analyzes the impact of the Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT) and the role of external factors on the domestic ferry industry substantiated with collected data and other information during my fieldwork. The IMS-GT increased the number of passengers to the Riau Islands. Although the statistics do not disaggregate passengers' nationalities, most of them are Indonesians based on my fieldwork observation. Unlike for international routes, the Indonesians' purposes for travelling using the domestic routes are more practical: business, commute, homecoming and so on. At the outset, the IMS-GT has contributed to the increase in the number of passengers while external factors have both positive and negative impacts.

As discussed in section 2.2, the four flagship projects of the IMS-GT were Batamindo Industrial Park (BIP), Bintan Beach International Resort (BBIR), Bintan Industrial Estate (BIE) and Karimun Marine and Industrial Complex (KMIC). BIP is one of the industrial estates in Batam, and regarded as a symbol of joint development

¹³⁴ For example, see *Haluan Kepri*, "Miko Natalia Kelebihan Penumpang", Mar 13, 2012 (Digital Source). When I took ferries during my fieldwork, I have faced this situation several times.

between Singapore and Indonesia. BIP as well as other industrial parks attracted much foreign direct investment (FDI), increasing the population in Batam and the ferry traffic between Batam and other islands since the 1990s. As most residents are from other regions such as Java and Sumatra Island and only BIP created employment for more than 60,000 workers, it is fair to say that the projects contributed substantially in increasing the number of ferry passengers¹³⁵. However, they face competition from other industrial estates in other areas in Indonesia and other countries. In addition, the annual minimum wage in Batam increases rapidly. Thus, some investors have shut down their factories and moved to other areas¹³⁶. Although the manufacturing industries still play a big role in Batam's economy, their impact on the ferry industries is not as strong as before. Rather, one of the indirect impacts of the IMS-GT is that Batam has become an island with a million population now¹³⁷. Thus, it is proposed that the indirect impacts of the GT are bigger than its direct impacts.

The last three projects (BBIR, BIE and KMIC) apparently have had a less direct impact on the domestic ferry network compared to the international one. There is a route between Telaga Punggur in Batam and Tanjung Uban near BIE, and there was a route between Telaga Punggur and BBIR. However, it is estimated that the passenger volume to BIE is relatively small because the route is operated every 30 minute by speedboat with 30 seats and BIE, with more than 13,000 workers, is much smaller

¹³⁵ Most of these residents migrated to Batam from other regions using sea routes. Batam is an island abundant with migrant workers. For residents in Batam from neighboring islands, a ferry is the only means of transportation. For some residents in Batam from distant islands such as Java and Sumatra, a ferry and a ship are still an important means of transportation. During the long holiday, they are packed with people returning home.

¹³⁶ See, for example, *Jakarta Post*, "Increasing Wages Driving Investors out of Batam", Jul 15, 2014, (Digital Source)

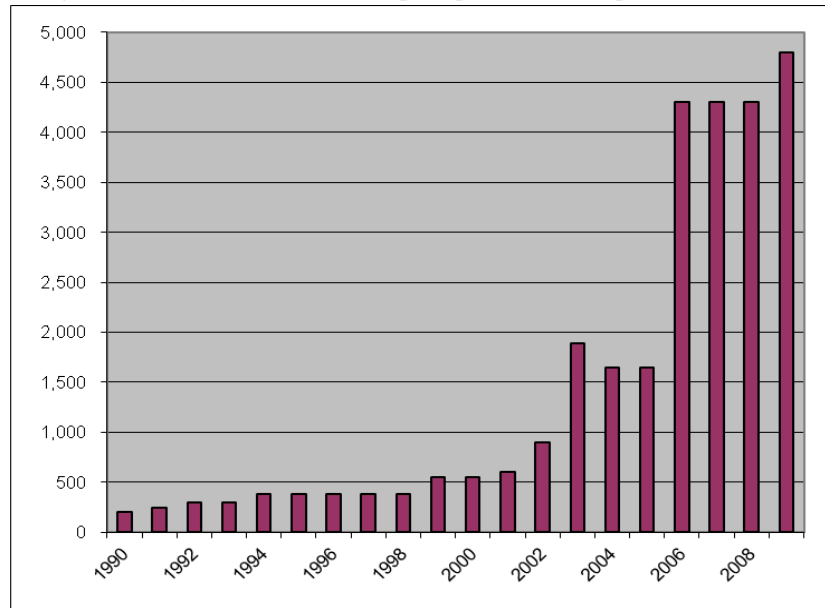
¹³⁷ This density has made Batam a regional center, created jobs to meet the island's demand and deepened economic and social connections with neighboring islands. On the one hand, residents in neighboring islands such as Bintan and Karimun come to Batam for various reasons such as business and shopping. Batam offers a wide variety of goods and opportunities for business. On the other hand, as discussed in section 5.1.3 (p.109), the formation of the Riau Islands Province contributed to an increase in commuters from Batam to Bintan.

compared to BIP. The Telaga Punggur–BBIR route was already abolished in a short time apparently because BBIR’s main target is foreign tourists. Thus, it is fair to say that BBIR and BIE contributed to the ferry transportation between Batam and Tanjung Uban to some extent. The scale of KMIC is even smaller compared to BIE judging from its small number of tenants. Even though the ferry network around Karimun and Tanjung Pinang has expanded over the years, the IMS-GT did not directly contribute at least to the ferry transportation in these areas.

In addition to the impact of the IMS-GT, the role of external factors was crucial. During fieldwork, I interviewed ferry operators regarding general external factors that affected their business. These included the Asian Financial Crisis (1997), the *Reformasi* (= political changes in 1998), the SARS outbreak (2003), the formation of the Riau Islands Province (2002) and the formation of Free Trade Zone (FTZ) in Batam, Bintan, and Karimun Island (2009). Two interviewees in Sekupang stated that the effect of the Asian Financial Crisis was significant. One informant stated that it affected their business such as the Sekupang–Sumatra routes greatly. As a result, some residents in Batam did not return home during the homecoming season to save money. However, SARS and the formation of the Riau Islands Province did not affect their businesses significantly. According to another informant, a few operators went bankrupt due to the Asian Financial Crisis. On the other hand, according to one informant in Telaga Punggur, the Asian Financial Crisis did not affect the number of passengers between Batam and Tanjung Pinang significantly. Instead, the formation of the Riau Islands Province had a big impact¹³⁸. The interviewees in Sekupang stated the negative effect of the Asian Financial Crisis, while the interviewee in Telaga Punggur stated the positive effect of the formation of the Riau Islands Province.

¹³⁸ Interview at PT. Baruna Jaya and PT. Marinatama Gemanusa in September 2013, and Interview at PT. Pelnas Lestari Indomabahari in November 2013

Fig 5.10: Changes of Minyak Solar Price (Rupiah per Liter, The price on 1st January each year)



Source: Ministry of Energy and Mineral Resources, Indonesia's website (accessed in April 2014)

In addition to the above-mentioned external factors, two specific factors affecting the ferry industry are discussed: increases in the fuel price and competition with airline companies. Firstly, compared to the international routes, the oil price system is different for the vessels plying the domestic routes. According to one informant, diesel fuel for ferries is subsidized by the government. Due to this subsidy, a ferry ticket price is strictly controlled by the government. The price changes rather infrequently, only once every three to five years¹³⁹. Fig 5.10 shows the change in subsidized diesel fuel (= *Minyak Solar*) from 1990 to 2009. The rate of increase was small in the 1990s: less than three times in a decade. However, prices increased significantly in the 2000s: approximately nine times from Rp 550/L in 2000 to Rp 4,800/L in 2009. Consequently, the price of a ferry ticket increased accordingly. For example, a one-way trip between Batam and Tanjung Pinang cost Rp 25,000 before October 2005 and it reached Rp 55,000 in 2013. It is estimated that the increase of fares due to an increase in the fuel price has a big impact for passengers. Some might

¹³⁹ Interview at PT. Baruna Jaya in September 2013

choose a different means of transportation if there is an alternative.

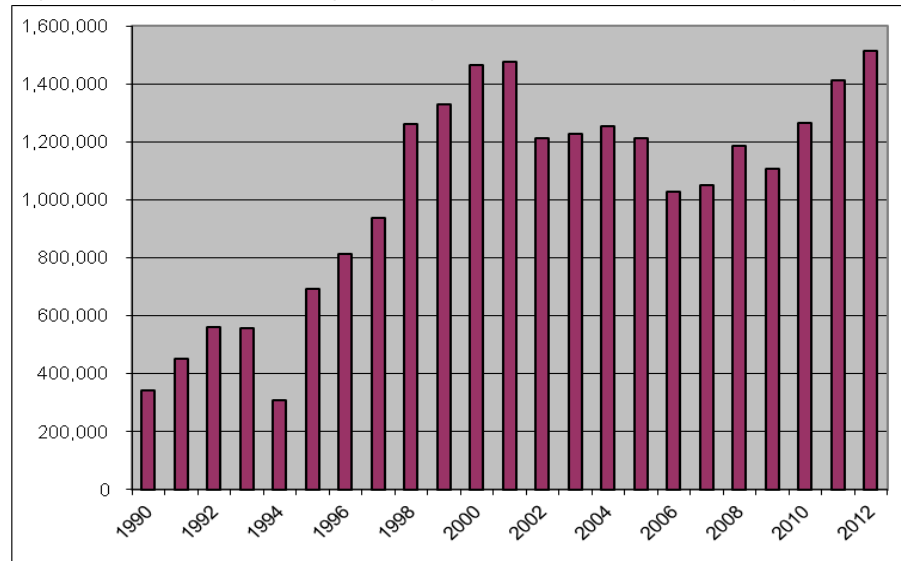
Therefore, it is essential here to discuss competition with airline companies, especially for the long-distance routes. The airport in Batam opened before the 1980s. Airline companies connect Batam with Indonesian main cities such as Jakarta, Medan and Pekanbaru. The airport in Bintan is connected to main cities such as Jakarta, but the number of flights there is less compared to Batam. The airport in Karimun is only for regional transportation. Therefore, PT. PELNI competes with airline companies in the Batam–Jakarta, the Batam–Medan, and the Bintan–Jakarta route, while ferry operators compete with them in the Batam–Pekanbaru and Batam–Jambi routes.

The competition with airline companies has become intense since the mid-2000s. *The Jakarta Post* reported on the plight of ferry operators. A six-hour ferry trip from Batam to Riau Province cost Rp 250,000, while a budget airline may charge between Rp 220,000 and Rp 350,000 for the 30-minutes trip. According to one operator, it was natural that people choose the faster and cheaper method of transportation. Consequently, operators understood that they needed to survive by holding on to the shorter routes. A ferry operator in Sekupang, plying between Batam and Kuala Tungkal stated a similar business environment¹⁴⁰. During my fieldwork, informants also commented that the emergence of budget airlines affected both the Batam–Pekanbaru and Batam–Kuala Tungkal routes¹⁴¹. The impact of competition with airline companies is significant for ferry operators plying between Batam and Sumatra Island. A joint operation between two operators, explained in section 5.1.3, and focusing on middle-distance routes might be a countermeasure to the competition.

¹⁴⁰ *The Jakarta Post*: Jan 17, 2007. According to this operator, most passengers moved to budget airlines. It takes five hours from Batam to Kuala Tungkal in Jambi province (Sumatra Island) by ferry, plus two hours by bus at the cost of Rp 250,000. Airlines charged between Rp 250,000 and Rp 400,000 for the 40-minutes flight. Consequently, the respondent felt that they did not have many passengers, and this route may have to be terminated soon.

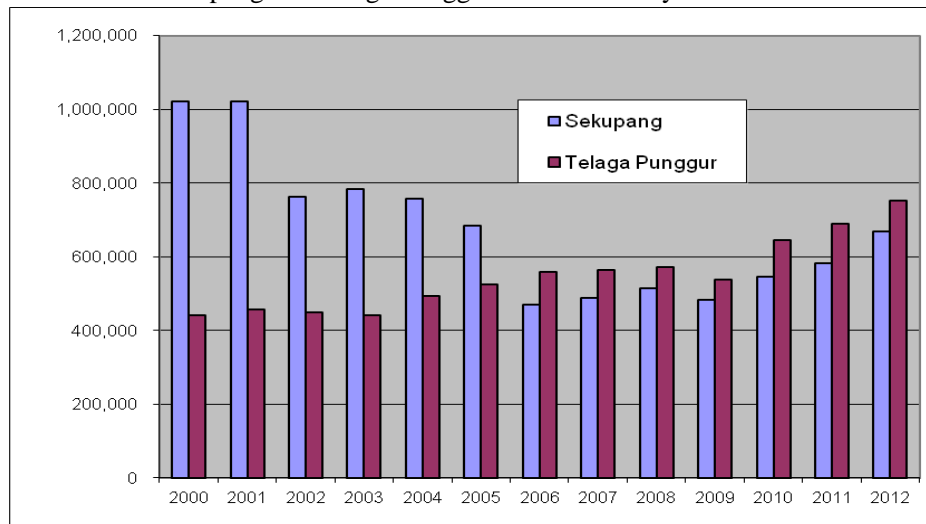
¹⁴¹ Interview at PT. Pelnas Lestari Indomabahari in November 2013 and at PT. Marinatama Gemanusa in September 2013

Fig 5.11: Number of Arriving Passengers to the Batam Domestic Ferry Terminal



Source: *Batam in Figures* (various years)

Fig 5.12: Number of Arriving Passengers to the Sekupang and Telaga Punggur Domestic Ferry Terminals



Source: Batam Port Corporation (Author's collection)

In order to shed more light on the discussion in this section, statistics are now reviewed. In the 1990s, the number of domestic passengers to and from Batam kept increasing as a whole due to the implementation of the IMS-GT projects. The number of arriving passengers increased from 0.34 million in 1990 to 1.46 million in 2000: 1.03 million via Sekupang and 0.44 million via Telaga Punggur as entry points (see Fig 5.11). Although the breakdown of the number of passengers in each port before 2000 is

not available, it is estimated that both Sekupang and Telaga Punggur experienced an increase judging from interviews conducted during the fieldwork. However, the number of arriving passengers has fluctuated since the 2000s. It dipped from 1.46 million in 2000 to 1.03 million in 2006, but increased to 1.51 million in 2012. As for the breakdown of passengers for the two terminals (see Fig 5.12), Sekupang suffered a decline in the mid-2000s from 1.02 million in 2000 to 0.47 million in 2006, but recovered to 0.67 million in 2012. It is crucial to point out that a decrease in the number of passengers in Sekupang since the 2000s was in accordance with a fuel price increase in the same period. Thus, as long-distance ferry operators depart from Sekupang, it is estimated that the number of passengers declined due to a sharp increase in the fuel price and competition with airline companies. Telaga Punggur experienced a steady increase throughout the 2000s from 0.44 million in 2000 to 0.75 million in 2012. The reason could be due to a traffic increase caused by the formation of the Riau Islands Province. The impact of an increase in the fuel price is not negligible, but there is no alternative for travelers but ferry transportation for this route. In short, the number of passengers arriving via Sekupang was more than two times that of Telaga Punggur in 2000, but the statistics were reversed in 2012.

5.3 The Case Studies

This section discusses the two state-owned enterprises (SOEs) for additional insights on Indonesian sea transportation: PT. PELNI and PT. ASDP Indonesia Ferry. PELNI operates ships, not ferries in a strict sense, but it is discussed here for a better overall understanding of the sea transportation in the Riau Islands. Both are SOEs but with different emphases: PELNI is a long-distance ship operator with cargo capacity, while ASDP is a roll-on roll-off (ro-ro) ferry operator.

PT. Pelayaran Nasional Indonesia (PELNI)

One SOE with branches in the Riau Islands is *PT. Pelayaran Nasional Indonesia* (PELNI), a long-distance ship operator. As they operate long-distance vessels, they can carry more than one thousand passengers with cargo at a time (see Fig 5.13 for a photo of a PELNI ship). In the Riau Islands, Tanjung Pinang was previously prominent in the system of PELNI sea routes. Subsequently, Kijang in Bintan Island was selected as a site to build a new port for the development of a new port town independent from Tanjung Pinang. For this reason, two vessels were bought by PELNI and put into service in 1987. One of the new routes included Kijang, to connect Jakarta to a port of call close to Singapore¹⁴². They apparently added Sekupang and Tanjung Balai as ports of call thereafter. PELNI's motivation to choose Bintan as a port of call was its proximity to Singapore. PELNI gave attention to the importance of the Riau Islands not only as a destination but also as a transit point to Singapore before the beginning of the IMS-GT.

As of March 2014, PELNI ships call at three points in the Riau Islands: Kijang, Sekupang in Batam and Tanjung Balai in Karimun. They currently operate three routes in the Riau Islands (see Fig 5.14). One is a weekly route from Jakarta to Medan via Sekupang and Tanjung Balai. Another is a fortnightly route from Jakarta to Surabaya with several port calls along the way such as Kijang, Natuna and Kalimantan Island. The other is also a fortnightly route from Jakarta to Kijang.

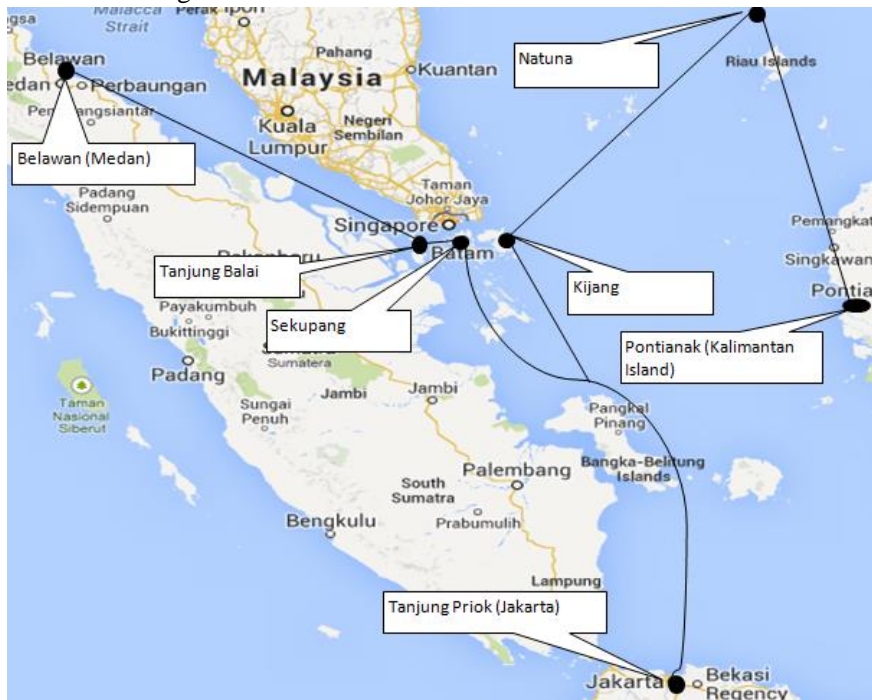
¹⁴² Rutz, Werner O A and James R Coull, 1996, "Inter-island Passenger Shipping in Indonesia: Development of the System, Present Characteristics and Future Requirements", *Journal of Transport Geography*, Vol.4, No.4, pp.278, 281. However, Kijang is just a port facility, not a port town yet in my impression.

Fig 5.13: A PELNI Ship



Source: Author's collection

Fig 5.14: PELNI Routes in the Riau Islands in 2014



Sources: Google Map, PELNI's website (accessed in April 2014)

The number of PELNI passengers showed a downward trend throughout the 2000s. In 2001, the total number of the passengers reached 7.43 million, but it declined to 3.69 million in 2006. Then it recovered reaching 4.52 million in 2011. In the Riau

Islands, the number of its arriving passengers was recorded at roughly 107,000 in Batam, 89,000 in Kijang and 25,000 in Tanjung Balai in 2008. Batam received the most number of passengers among these three ports. However, its number of arriving passengers decreased annually in tandem with the decrease in the total number of passengers¹⁴³.

Table 5.4: Comparison between Sea and Air Trips in the Jakarta–Batam Route
(As of March, 2014)

	Sea	Air
Time	29 hours	2 hours
Frequency	1 return trip/week	Approximately 10 daily return trips
Price	Rp 258,000–994,000	Rp 454,000

Sources: Lion Air’s website (a promotion price without tax in a weekday, accessed in March 2014), PELNI’s website (accessed in March 2014) and author’s fieldwork

Table 5.5: Comparison between Sea and Air Trips in the Medan–Batam route
(As of March, 2014)

	Sea	Air
Time	23 hours	1.5 hours
Frequency	1 return trip/week	Approximately 5 daily return trips
Price	Rp 181,000–683,000	Rp 411,000

Sources: Lion Air’s website (a promotion price without tax in a weekday, accessed in March 2014), PELNI’s website (accessed in March 2014) and author’s fieldwork

The decrease in the passenger number is due to competition with airline companies (see Tables 5.4 and 5.5). Even though PT. PELNI offers reasonable fares for several kinds of seats, one can easily see that airline companies are recently taking the lead in the Batam–Jakarta and Batam–Medan routes. The air routes are much faster and airline companies operate several daily trips in total. Thus, the sea routes, apart from the freight traffic, have apparently become transportation for travelers who have

¹⁴³ *Data Distribusi Angkutan Penumpang Dalam Negeri* (2011), *Kepulauan Riau in Figures* (various years), *Bintan in Figures* (various years) and *Karimun in Figures* (various years). The number of arriving passengers in Batam decreased from 107,000 in 2008 to 79,000 in 2011; in Kijang from 136,000 in 2001 to 73,000 in 2011; and in Tanjung Balai from 41,000 in 2002 to 25,000 in 2008.

extra time, for those who have much baggage, and for others who have less budget for their travel expenses.

PT. ASDP Indonesia Ferry

The other SOE is PT. ASDP Indonesia Ferry (ASDP). Unlike PELNI, this company operates roll-on roll-off (ro-ro) shipping lines. ASDP is different from other operators because they carry passengers and their vehicles. It was established in 1973 and has more than 3,300 employees¹⁴⁴. ASDP has a fleet of 115 ferries that serve 151 shipping lines throughout the Indonesian archipelago (see Fig 5.15 for a photo of an ASDP ro-ro ferry). Its commercial ferry network consists of 38 lines served by 65 ferries, while its pioneer one consists of 113 lines served by 50 ferries¹⁴⁵. It also manages 34 ferry ports all across Indonesia (Centre, 2011: 67).

Fig 5.15: An ASDP Ro-ro Ferry



Source: Author's collection

¹⁴⁴ ASDP's website (accessed in November 2013)

¹⁴⁵ Pioneer services are essentially attempts to provide low-cost and efficient services to remote and inaccessible areas in Indonesia. The services operate through a complex system of subsidies (Hoyle et al., 1998: 56).

Its branch in Batam opened with an exclusive port in Telaga Punggur in 1993. ASDP chose Tanjung Uban in Bintan as a destination port because it is the shortest route from Telaga Punggur to Bintan. There are currently three destinations from Telaga Punggur: Tanjung Uban (7 daily return trips), Tanjung Balai (bi-weekly) and Dabo in Singkep Island (weekly). ASDP has operated the route to Tanjung Uban since its branch's opening, while the others are new: Tanjung Balai in 2010 and Dabo in 2013¹⁴⁶. In the route between Telaga Punggur and Tanjung Uban, speedboat operators are its competitors because they ply the same route in fifteen minutes compared to one hour by ASDP, although ASDP has a comparative advantage in being able to carry vehicles. A potential competitor for this route might be a bridge that connects Batam and Bintan which is still under planning.

In 1993, ASDP operated one ferry with two daily return trips. They increased the number of ferries and trips in the recent five years to expand its network. An interviewee stated that it became very convenient for passengers to purchase a motorcycle due to the introduction of credit facilities and because passengers could ride their motorcycles onto the ship. Thus, the number of ASDP passengers showed an upward trend with an increase in the number of passengers who bring their vehicles onto the ferries. According to its statistics, ASDP's regional ridership in 2007 reached 41,000 passengers, and it increased more than five times to 209,000 by 2012. They have plans of establishing a new quay in Telaga Punggur and a new route¹⁴⁷. ASDP opened a branch in Batam because they saw the potential of the island due to the IMS-GT. As was expected, the ASDP's network around Batam has grown since its establishment, especially in recent years.

¹⁴⁶ The route to Tanjung Uban is a commercial service, while routes to the others are pioneer service. Interview at PT. ASDP Batam branch in September 2013

¹⁴⁷ PT. ASDP Indonesia Ferry (author's collection). Interview at PT. ASDP Batam branch in September 2013

5.4 Conclusion

In the 1990s, the domestic ferry network in Batam had expanded following the development of the IMS-GT (see Fig 5.7). As more employment was created, more people headed for the Riau Islands for job opportunities across Indonesia. This has led to an increase of population in Batam and its neighboring islands. This process has stimulated the expansion of the ferry network. The function of Kabil, an eastern gateway to and from Batam, was relocated to Telaga Punggur in response to the increasing number of passengers. Sekupang, a western gateway to and from Batam, also benefited from the growth. In the trunk routes from Batam, the number of trips increased to more than ten and various feeder routes were also established.

However, this favorable business environment has changed since the 2000s. The ferry network has expanded in some ports, but the expansion did not occur in others. On one hand, Telaga Punggur attracted more passengers because of the formation of Riau Islands Province, and it became the busiest port in Batam. In Tanjung Pinang, several new routes opened to connect to other regions in the Riau Islands. Tanjung Balai also has begun to function as the hub of interisland, domestic and international routes, especially since the 2000s. On the other hand, the network almost remained the same but the number of trips decreased in Sekupang. In particular, the long-distance routes to Sumatra Island were heavily affected. In addition, a new operator was established to connect between a new port in Batam and Tanjung Balai. The important point here is that private operators, not state-owned enterprises, played a critical role in the expansion of the ferry network.

In Indonesia, the central, provincial and local governments as well as related organizations have asserted different levels of authority regarding ferry transportation.

Due to regional autonomy, the authorities in some areas were delegated to local governments by virtue of Law No.17 in 2008. In addition, the government has, both actively and passively, been involved in ferry operations depending on the cases. A unique feature of Indonesia is the complexity of its port administration system because there are several administrators. Batam Indonesia Free Zone Authority (BIFZA), a development organization, relocated the function of Kabil to Telaga Punggur in the 1990s, but it has no active involvement thereafter. This type of behavior also applies to the case of Pelindo I.

The IMS-GT has certainly increased the number of passengers over time. However, the increase in the number of passengers due to the IMS-GT was affected by some external factors both positively and negatively. The impact of industrial estates in Batam on the ferry industries is not strong compared to before because of competition with other industrial estates in other regions. Although Tanjung Pinang and Tanjung Balai are relatively marginalized from the benefit of the IMS-GT, they play a big role in the domestic ferry network. In addition, increases in fuel prices and the emergence of budget airlines negatively affected the ferry operators in Sekupang, while the formation of the Riau Islands Province positively affected them in Telaga Punggur.

Two state-owned enterprises were discussed as case studies, and they showed contrasting business results: PELNI suffered from a decline in the number of passengers due to competition with airline companies, while ASDP increased its number of trips and recently expanded its network with ro-ro ships.

CHAPTER VI:

CONCLUSION

6.1 Verifying Hypotheses

In this research, two hypotheses were examined.

(i) For international ferry routes, the network and the number of ferry trips had expanded until around 2000 following the success of the Growth Triangle (GT) project. However, subsequently, the ferry operators have more or less maintained their networks by adjusting the number of ferry trips with a slightly declining trend due to the fluctuating number of visitors to the Riau Islands, albeit this decline has occurred with a corresponding increase in Batam's regional GDP, population and investment.

(ii) For domestic ferry routes, both the network and the number of ferry trips of the long- and middle-distance operators expanded since the beginning of the GT projects due to an increase in Batam's regional GDP, populations in Batam and Bintan, and investment.

My hypothesis for international ferry routes was almost correct. Even before the start of the Indonesia–Malaysia–Singapore Growth Triangle (IMS-GT), formerly known as the Singapore–Johor–Riau Growth Triangle (SIJORI), there was an increase in the number of trips between the Riau Islands and Singapore since the late 1980s. Subsequently, the 1990s saw a significant expansion of the network and an increase in the number of trips. In order to cater to this growth, port facilities in Singapore were upgraded. With the implementation of the IMS-GT program, new ports for the resort areas and the industrial estates in the Riau Islands opened one after another. The network between the Riau Islands and Johor State has expanded since the mid-1990s. Some ports in Johor opened to connect to Singapore. The ferry operators started the

routes to and from the Riau Islands thereafter.

However, this favorable business environment has changed since the beginning of the 2000s. For the Riau Islands–Singapore routes, the network barely remained the same and the number of ferry trips has decreased when comparing the 2001 with the 2014 situation. Several routes were abolished while a few ports opened in the Riau Islands. The port facilities in Batam were also upgraded in the 2000s. For the Riau Islands–Johor State routes, the network and the number of ferry trips have remained almost the same when comparing the 2001 with the 2014 situation. New ports opened and new routes were established, while a few other routes were abolished.

For domestic routes, my hypothesis was slightly optimistic. An expansion of the network and an increase in the number of ferry trips held true in the 1990s similar to the international routes. In the trunk routes from Kabil/Telaga Punggur and Sekupang, the number of daily return trips increased to more than ten, and various feeder routes were established. However, the business environment has differed in each port since around the 2000s. On the one hand, the network in Sekupang almost remained the same, but the number of trips decreased. In particular, the long-distance routes to Sumatra Island were heavily affected. Consequently, operators apparently began to put more emphasis on middle-distance routes. On the other hand, Telaga Punggur attracted more passengers because of the formation of the Riau Islands Province, and the number of its arriving passengers exceeded the number of arriving passengers to Sekupang. Tanjung Pinang, being the hub as a provincial city in the Riau Islands Province, saw several new routes connected with other regions in the Riau Islands. Tanjung Balai has also begun to function as the hub of the interisland, domestic, and international routes, especially since the 2000s.

As for the reasons for these trends and patterns, the 1990s saw significant

expansion of the network for both international and domestic routes due to the implementation of the IMS-GT programs. Both of them benefited from this impact. For the international routes, more foreigners visited the Riau Islands for various purposes such as business and pleasure, while the number of Indonesian passengers from both the Riau Islands and other regions across Indonesia increased. For domestic routes, as more employment was created, more people from across Indonesia headed for the Riau Islands for job opportunities. This led to an increase in the population in Batam and the neighboring islands. This process stimulated the expansion of the ferry transport network.

However, this business environment has changed since around the 2000s. The increase in the number of passengers due to the IMS-GT was affected both positively and negatively by several external factors. Compared to the 1990s, the framework of the IMS-GT has cooled down now. The impact of the industrial estates in Batam on the ferry industries is not strong currently compared to before because of the competition with other industrial estates in other regions and a sharp increase in wages, while the resort areas in the Riau Islands have continued to attract tourists from Singapore. General factors such as the Asian Financial Crisis and the SARS outbreak in 2003 dealt a blow to the ferry transportation. For example, one of the international operators suffered a double-digit decline in its passenger volume due to the Asian Financial Crisis. As for specific factors, sharp increases in the fuel price since the late 1990s have affected ferry operations. Besides these factors, a few operators of international routes left the market due to severe competition in the ferry industry. As for domestic routes, the formation of the Riau Islands Province was a favorable wind to the operators in Telaga Punggur. In addition, the impact of competition with airline companies was significant for the ferry operators plying between Batam and Sumatra

Island. However, the number of international and domestic passengers has shown signs of recovery since the 2010s.

Based on my findings, there were a few contributions to the literature dealing with both the IMS-GT and the sea transportation in Indonesia. My humble research showed a different perspective of the IMS-GT in the Riau Islands relating to ferry transportation. Firstly, it is often argued that the Riau Islands–Johor State links are weak in terms of investment and trade linkages. However, there is at least a constant flow of people considering the existing ferry network between the Riau Islands and the Johor State. Although this network is smaller compared to the Riau Islands–Singapore routes, there are still more than 30 daily return trips. Indonesians from other parts of Indonesia use Batam as a transit point to Malaysia. The number of Indonesians who enter Singapore by sea has shown an increasing trend, while the number of Malaysians who enter Indonesia via Batam has increased over the years. Complementarity between the two areas surely exists. Secondly, the IMS-GT projects in the Riau Islands are concentrated in Batam and the northern area in Bintan. Thus, Ford and Lyons (2006) argued that Tanjung Pinang and Tanjung Balai are marginalized from the development of the IMS-GT. The number of foreign tourists and international ferry trips to these two ports are certainly on a declining trend. Nonetheless, they function at least as hubs of the domestic sea transportation, especially since the 2000s. Thirdly, one of the concepts related to the IMS-GT is geographical proximity. The development of the ferry network played a significant role to support the GT, leading to economic development of this area. However, fuel prices have experienced sharp increases since the late 1990s. Thus, fuel charges were introduced for international routes and the fare increased rapidly for domestic routes in the 2000s. There is a possibility that the fuel price will be a hindrance to the increase in the number of passengers if it remains high.

The literature on sea transportation in Indonesia primarily focuses on national matters while this research investigated sea transport for a particular region. As the impact of the IMS-GT was significant, the Riau Islands has transformed into a hub for ferry transportation in a short period. This research showed the process of a rapid expansion of the ferry network in one region facilitated by government-led projects. In addition, state-owned enterprises such as PT. PELNI and PT. ASDP Indonesia Ferry are the main research subjects in existing literature. It was only natural that they were researched because of their large-scale operations. In the Riau Islands, they certainly play a role, but the role private operators play is much bigger. In consideration of the impact of the IMS-GT, ferry operators headquartered in the Sumatra Island and the Riau Islands predicted future growth in the area and have invested in the ferry industry since the 1990s. Although they faced various general and specific adverse factors, they continued to play the dominant role in the Riau Islands.

6.2 Looking Forward

Since the beginning of the IMS-GT program, in the Riau Islands, the Indonesian and Singaporean governments have cooperated closely with government-linked corporations in Singapore and a conglomerate in Indonesia. In the Johor State, the Malaysian government is involved heavily in the recent Iskandar Project. These organizations are the prime movers of regional development. In order to stimulate the regional economies, big projects are essential and these have been successful in the region. However, there seems to be fewer big projects in the Riau Islands for the future. For example, only three projects are listed in the BIFZA's website as of April 2014: the Batam–Bintan Bridge, the Batam Monorail and the toll road. Their completion periods are not stated. In addition, “The Master Plan for the Expansion and Acceleration of

Indonesia's Economic Development, 2011–2025 (MP3EI)" stipulated only two or three projects for the Riau Islands such as the development of the terminal at the airport in Bintan, out of the hundreds of development projects in across Indonesia¹⁴⁸.

Therefore, the outlook for big projects in the Riau Islands seems uncertain. Take for example, the Batam–Bintan Bridge project. As Harry Azhar Azis commented in RSIS Riau Roundtable 2010, five billion rupiah is needed for the bridge project and a highway from Batam to Singapore would cost double the amount. But the problem is how the construction work can be done and by whom. It may be the Indonesian government, the Singaporean government, the local government, or the private sector¹⁴⁹. The Balerang bridge project in the southern Batam was certainly successful, but it was constructed by the central government during the era under Suharto and by Batam Industrial Development Authority under the Habibie regime, before the decentralization of political power. Both organizations cooperated closely and this functioned well at that time. However, that era is over and the decentralization of political power has started. The connection between the two organizations seems to be weaker and the Riau Islands provincial government is now the new player. It seems that big projects in Batam will not proceed smoothly as before. Consequently, a reduction on the dependence on big projects for growth is unavoidable in order to make the Riau Islands attractive for business and tourism.

Instead, steady efforts need to be made over time. One way is to increase the number of Indonesian visitors to the Riau Islands. Compared to the number of Singaporeans, this number has shown a recovery trend. As Batam has become a site for official gatherings and meetings, some participants travel to Singapore thereafter. If

¹⁴⁸ Kumar and Sidiqqe, 2013, p.57. BIFZA's three projects are not included in this MP3EI.

¹⁴⁹ Harry, Azhar Azis, *RSIS Riau Roundtable 2010* on "The Bridge between the Riau Archipelago and Singapore: The Implementation of the FTZs and Investment Opportunities", Indonesian Programme, Nanyang Technological University, Mar 16, 2010, p.4 (Digital Source).

Batam can attract additional visitors from across Indonesia, it will become a more significant place in Indonesia. An increase in the number of ferry passengers can also be expected. In addition, an effort to increase the number of foreign visitors needs to be made. Although the number of Singaporean tourists has shown a decreasing trend, the islands could become popular to tourists visiting Singapore when they can see advantages in visiting Batam. By utilizing the ferry network, the Riau Islands can function as a hub for distant and neighboring islands in Indonesia and neighboring countries. Moreover, ferry operators are also cooperating in order to increase the number of tourists to Batam. For example, cycling events are occasionally held in Batam to attract tourists from Singapore. Ferry operators are usually considered to be just providing a means of transportation, but some of them are actively involved in these events to bring in more visitors¹⁵⁰.

The Jakarta Post reported that a number of pilot projects for the ASEAN Connectivity will be implemented in Batam. One of them is the opening of roll on-roll off (ro-ro) ferries linking Batam with Malaysia and Singapore. The feasibility study for the project would soon be carried out with operations slated for 2015¹⁵¹. The Riau Islands is a unique area with a complicated ferry network, and its geographical characteristics have sustained the ferry industries. Thus, it seems that Batam is an ideal place for this project. The international and domestic ferry networks in the Riau Islands have developed substantially throughout the last 20 years or more. It has begun to function as a hub of the ferry transportation and has thus facilitated an extensive ferry network with other islands in Indonesia and to neighboring ports of Singapore and Malaysia. While facing various kinds of challenges, the current operators have overcome most of them with tremendous efforts. The ferry operators' trajectories up to

¹⁵⁰ Batam Fast's and Berlian Ferries' websites (accessed in April 2014)

¹⁵¹ *The Jakarta Post*, "Batam Hosts ASEAN Connectivity Pilot Projects", Jul 5, 2012 (Digital Source).

now have set an example for other operators in other regions. Finally, I sincerely hope for the continued success and progress of the ferry industries in the Riau Islands.

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