

The Multi-Level Governance Dilemma in Mandalika Special Economic Zone: A Bargaining and Cooperation Approach

Roseno Aji Affandi

Department of International Relations, Bina Nusantara University, West Jakarta, Indonesia
roseno.affandi@binus.ac.id

Salsa Nabila Putri

Department of International Relations, Bina Nusantara University, West Jakarta, Indonesia
salsa.putri001@binus.ac.id

Tirta Nugraha Mursitama

Department of International Relations, Padjajaran University, Bandung, Indonesia
tmursitama@binus.edu

Yanyan Mochamad Yani

Department of International Relations, Padjajaran University, Bandung, Indonesia
y.mochamad@unpad.ac.id

Arry Bainus

Department of International Relations, Padjajaran University, Bandung, Indonesia
arrybainus@unpad.ac.id

Submitted: January 21st, 2024; Revised: April 24th, 2024; Accepted: May 21st, 2024

Abstrak

Latar belakang penelitian ini didasarkan pada ketegangan sosial dan politik dalam pengalaman pengembangan KEK di Indonesia. Penelitian menemukan bahwa permasalahan utama dalam pengembangan KEK bersumber dari tiga faktor utama: 1) kurangnya pemahaman mengenai tata kelola multilevel, baik dari pemerintah pusat maupun daerah. 2) pemerintahan yang terlalu terpusat menerapkan peraturan yang bersifat top-down. 3) kurangnya keterampilan pemerintah daerah dan masyarakat lokal untuk bernegosiasi dan berkolaborasi dengan berbagai pemangku kepentingan. Kami berpendapat bahwa KEK Mandalika juga mempunyai permasalahan yang sama, yaitu kurangnya peran pemerintah daerah dan masyarakat setempat dalam berpartisipasi dalam pengembangan sport pariwisata KEK Mandalika. Studi ini sangat penting dalam hal kontribusinya terhadap teori dan penyelidikan kerja lapangan. Studi ini menyelidiki dampak ekonomi politik KEK Mandalika dengan menggunakan integrasi teori Multi-Level Governance (MLG) dan Bargaining and Cooperation (BNC). Integrasi teori-teori tersebut merupakan kebaruan dan diferensiasi dibandingkan dengan penelitian-penelitian sebelumnya. Penelitian ini menggunakan pendekatan penelitian kualitatif dengan menggunakan wawancara pemangku kepentingan sebagai sumber data primer dan dilengkapi dengan data sekunder yang diperoleh dari penelitian sebelumnya.

Kata Kunci: Kawasan Ekonomi Khusus (KEK), tata kelola multi-level, pembangunan daerah, pembangunan pariwisata, jaringan produksi global

Abstract

This study's background is based on the social and political tension in developing the SEZ in Indonesia. The research concluded that the main problems in SEZ development stemmed from three main factors: (1) lack of comprehension of multi-level governance, both from the central and local governments; (2) too-centralized government imposing top-down regulation; (3) lack of skills from the local government and local community to negotiate and collaborate with the multi-stakeholders. This study disclosed that Mandalika SEZ has encountered the same problem, specifically the lack of the role of local government and local communities in participating in Mandalika SEZ sports tourism development. This study is crucial in terms of its contribution to theory and fieldwork investigation. This study investigated the political economy impacts of Mandalika SEZ by employing the integration of Multi-Level Governance (MLG) and Bargaining and Cooperation (BNC) theories. The integration of these theories is novel and differentiates them from previous research. This study employed a qualitative research approach, utilizing stakeholder interviews as the primary data source, complemented by secondary data obtained from prior research.

Keywords: Special Economic Zones (SEZ), Multi-Level Governance (MLG), regional development, tourism development, global production networks

INTRODUCTION

A Special Economic Zone (SEZ) is a neoliberal economic tool. Neoliberalism holds that less government interference would boost the economy (Friedman, 1962). Thus, the SEZ is an economic policy tool that accelerates economic growth and attracts international investments. Companies in SEZs receive tax exemptions, licensing options, and infrastructural improvements to attract local and foreign investment (Cheng 2019). The preservation of SEZs is grounded in the legal framework established by Law No. 39 of 2009, which underwent revision by Act No. 11 of 2020 pertaining to the facilitation of job creation. Mandalika was designated as an SEZ by the Government of the Republic of Indonesia through Regulation No. 52 of 2014. This decision was further supported by Minister of Economic Coordinator Decision No. 557/M/Ker/07/2020, which appointed PT Indonesia Tourism Development Corporations (ITDC) as the executive authority responsible for overseeing the operations of Mandalika SEZ (ITDC 2019).

This study indicates that political engagement in tourist development has influenced Mandalika SEZ. This intervention involves power distribution and stakeholder interactions to shape the tourism business. Tourism is often promoted by government policies that apply to all administrative levels (Telfer & Sharpley, 2016). It is believed that Indonesian SEZs, particularly Mandalika, are top-down in situations where local governments and communities face severe political and social risks. SEZ development should not be top-down because it often causes friction and hinders achievement (Sattarov, 2018). Previous research indicates that the majority of Indonesian SEZs, such as Tanjung Kelayang and Tanjung Lesung, have been handled utilizing a top-down strategy.

Tanjung Kelayang and Tanjung Lesung are SEZs that share similarities with Mandalika in terms of social and political aspects. Mandalika SEZ has faced challenges related to obtaining permission to participate in community involvement and has experienced conflicts with the government. These problems arose due to the need for community consent and the necessity of coordinating and collaborating with many stakeholders. It indicates that the majority of SEZs in Indonesia, which

are under government management, frequently encounter social and political issues that can impede their development (Soviah, Maulana, & Nugroho, 2020; Syarif Hidayat & Siwage Dharma Negara, 2020). Thus, this study emphasizes the absence of social awareness in the tourism development of Mandalika SEZ. Mandalika SEZ has encountered intricate social and political dynamics that underscore the lack of harmony between the government and the people. It greatly hinders the progress of SEZ development.

The approach utilized integrates multi-level governance (MLG) theory with bargaining and cooperation (BNC) theory. Multi-level governance refers to a collaborative approach to governance that involves various sectors, including investor collaboration, international sports organizations, tourism businesses, and communities at different levels, such as international, national, and subnational (Enderlein, Wälti, & Zürn, 2010). This research aims to examine the relationship between central and regional governments, with a focus on the role of local actors in enhancing competitiveness and managing social, economic, and political risks associated with the implementation of SEZ policies in the Mandalika tourism development in Indonesia.

Neoliberalism argues for minimal government involvement, emphasizing the need to preserve market signals and promote competition without interference (Friedman 1962). This study claimed that the top-down approach to Mandalika SEZ development was ineffective due to the community's limited economic participation and the lack of consistent regulation between central and local governments, creating political complexities.

This study dives into the constraints and potential of MLG within SEZs through the Mandalika case, analyzing the interactions between government levels. Additionally, the BNC theory was applied to understand Mandalika stakeholder relationships. These insights can help resolve conflicts within SEZs and reveal strategies for successful cooperation, benefiting future research and development. This research is novel as it utilizes a theoretical framework that integrates MLG and BNC theories. Combining MLG and BNC theories allows for a comprehensive understanding of SEZ development

complexities. This framework helps future research delve deeper into the intricate relationships between governance, stakeholder interests, and collaboration within SEZs. Additionally, focusing on the perspectives and challenges of local communities is crucial. Evaluating the social aspects of SEZ development and potential impacts ensures that economic growth does not come at the expense of local well-being and equity, fostering more comprehensive and sustainable approaches.

THEORETICAL FRAMEWORK

This study posits that MLG and BNC are crucial instruments for effectively shaping the Global Production Network (GPN) while minimizing adverse effects on political and social dimensions (Vennesson 2008). This study argues that the BNC theory can be utilized to understand the involvement of multi-level, multi-actors, and stakeholders in regional economic development to establish a sustainable SEZ in Mandalika. BNC adoption is also an essential strategy for national and subnational authorities to support SEZ regional economic growth (Yeung, 2015). This study examined economic, social, and political issues in Mandalika SEZ development, with a focus on the governance framework's shortcomings.

This approach should help stakeholders achieve regional development goals and reduce development inequities.

Multinational corporations, as investors, can enhance their GPN by harmonizing the interests of stakeholders through endorsing government initiatives aimed at promoting investment and generating employment opportunities. Hence, this study holds significance in examining phenomenon theories and addressing research inquiries such as: "How does the development of Mandalika SEZ align with the multi-level governance (MLG) and bargaining and cooperation (BNC) theory approaches to integrate into the GPN, considering the political, social, and economic aspects of the region from 2018 to 2023?"

This analysis delves into the complexities surrounding tourism SEZs in Indonesia. Examining various cases, as seen in Table 1, this study explored the diverse outcomes experienced by these zones, ranging from success stories like Nusa Dua and Bintan to challenges faced by Tanjung Lesung and Tanjung Kelayang. This investigation aims to illuminate the key factors influencing SEZ performance and pave the way for future development strategies that foster sustainable and inclusive growth.

Table 1. The State of Art of SEZ Development in Indonesia

SEZ Name	Location	Management	Status	Reason
Tanjung Lesung	Banten	State-owned Enterprises (BWJTDC)	Fail	Weak local capability and less community participation
Tanjung Kelayang	Banka Belitung	Private Company (PT. Belitung Pantai Intan)	Fail	The absence of effective coordination led to the emergence of conflicts between the central and local governments.
Nusa Dua	Bali	State-owned Enterprises (ITDC)	Successful	Success in neoliberal development by integrating business and social dimensions
Bintan	Riau Islands	Multinational Corporations (BRC)	Successful	Neoliberal development was facilitated through the integration of businesses from MNCs and small enterprises and the implementation of both formal and informal governance mechanisms.

Source: Processed by Authors, 2023

Indonesia's tourism SEZs present a fascinating yet intricate story. While some, like Nusa Dua, thrive under the Indonesian Tourism Development Corporation's (ITDC) successful balancing act between development and community needs, others, like Tanjung Lesung, struggled due to weak leadership and community exclusion. Examining these contrasting cases could reveal key factors influencing SEZ's success. Strong local leadership, exemplified by Nusa Dua's ITDC, has emerged as a cornerstone. Their ability to navigate community concerns and adapt to changing circumstances has fostered a conducive environment for growth (Guridno, 2021). Conversely, weak leadership, as seen in Tanjung Lesung, can lead to land disputes and hinder development (Soviah et al., 2020).

Furthermore, clear communication and collaboration are crucial. Bintan's success stems from the local government's strategic partnership with Singapore, demonstrating the power of collaboration in attracting investment and expertise (Karim, Mursitama, Riyadi, Affandi, & Muzdalifa, 2023). In contrast, Tanjung Kelayang's challenges highlight the detrimental effects of unclear regulations and internal conflicts, hindering investment and public involvement (Syarif Hidayat & Siwage Dharma Negara, 2020).

SEZs are typically established based on the population capacity of a region and its proximity to international markets. Hence, competitiveness plays a crucial role in stimulating both national and regional economic expansion. The objective of establishing the SEZ is to become a component of the GPN (World Bank 2008). The absence of competitiveness in a region might pose a threat, resulting in the region being left behind. Regional competitiveness refers to a region's capacity to create long-lasting economic value and prosperity, as well as its ability to compete in both domestic and international markets (Porter 2008). This study aims to gain insight into regional competitiveness, influenced not only by economic indicators but also by a comprehensive analysis of political and social variables (Kuswanto, Hoen, & Holzhaacker, 2016). Therefore, it is necessary to scrutinize SEZs that do not succeed in attaining their objectives. This study analyzed SEZs influenced by political and social factors resulting from decisions made by the central government while having

limited participation from local stakeholders. The research objectives aim to foster novel insights into the governance of SEZs in Indonesia's Mandalika tourism industry and propose approaches to enhance efficiency and mitigate political and social challenges.

This study employed the BNC theory, an analytical technique, within the context of the GPN framework. It is argued that the SEZ must be integrated into the GPN framework and the MLG theory to identify state players across political, governmental, and governance levels to become part of the GPN. According to the BNC theory, investors and businesses interact with local stakeholders to form a synergistic network. Regional development and regional asset acquisition within the global production network are the goals of this network (Neil M. Coe and Henry Wai-Chung Yeung, 2015). To operate as a unified entity, this integration must encompass not only regional institutions but also national, global, and local institutions. Participating in a worldwide production network can enhance the scale and reach of the local economy and concurrently reinforce the notion of regional self-governance. Regional institutions and local communities can utilize their resources to negotiate a more equitable bargaining and cooperation framework with global entities (Neil M. Coe & Henry Wai-Chung Yeung, 2015). Coe and Yeung elucidated that BNC combines investor objectives with regional development plans, hence engendering regional assets such as technology, knowledge, industrial organization, and territorial politics. This study emphasizes the significance of integrating MLG and BNC in SEZ development to boost value acquisition, industrial management, social and political stability, and ensure sustainable growth trajectories, as seen in Figure 1.

The establishment of a SEZ is influenced by various elements determined by the MLG theory. This theory aims to establish a balance of power distribution and decision-making authority among multiple levels and actors involved. These are the essential factors of MLG:

1) *Policy Alignment*

The development of SEZs necessitates the synchronization and alignment of policies across many levels of government, encompassing national, regional,

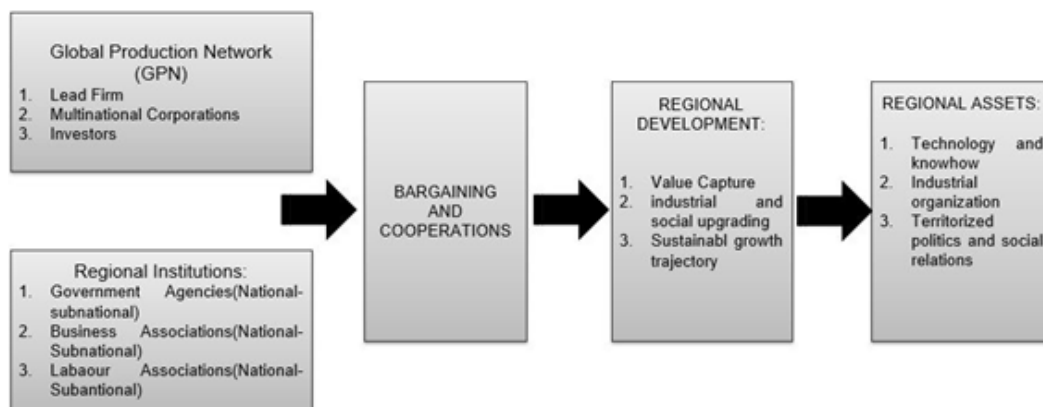


Figure 1. Bargaining and Cooperation (BNC) Theory (Neil M. Coe & Henry Wai-Chung Yeung, 2015)

and local authorities. Establishing a conducive business atmosphere within the SEZ relies on maintaining policy consistency and preventing contradictory regulations (Hazakis, 2014; Piattoni, 2009; Prado, 2007).

2) Institutional Collaboration

The successful implementation of MLG necessitates cooperation and coordination among the diverse governmental entities accountable for the advancement of the SEZ. The construction of a platform for debate, exchange of information, and collective decision-making are necessary for aligning policies, resolving conflicts, and harmonizing objectives (Hazakis, 2014; Piattoni, 2009; Prado, 2007).

3) Stakeholder Engagement

In an MLG framework, the participation of stakeholders is essential, encompassing non-state entities such as corporations, local communities, trade unions, and civil society organizations. Engaging stakeholders in the decision-making will enhance the transparency, accountability, and legitimacy of SEZ growth (Hazakis 2014; Piattoni 2009; Prado 2007).

4) Regulatory Framework

A conclusive and transparent regulatory framework is necessary for the development and progress of SEZs. The scope encompasses the creation of rules,

protocols, and benchmarks for the authorization of licenses, procurement of property, imposition of taxes, regulation of employment, and protection of the environment (Hazakis, 2014; Piattoni, 2009; Prado, 2007).

Policymakers can promote successful collaboration, coordination, and decision-making among many stakeholders to establish prosperous and sustainable SEZs. It can be achieved by taking into account these variables within the framework of the MLG theory (Kuswanto, Hoen, and Holzacker 2016; Prado 2007).

Furthermore, according to the BNC theory, the development of SEZs inside regions as a component of the global production network is influenced by several essential aspects. Within this theoretical framework, it is crucial to consider several significant factors while establishing the scope of SEZ development priority.

1) Infrastructure Development

The development of robust infrastructure is essential for attracting GPNs to SEZs. The network requires enough transport, logistics, and communications infrastructure to effectively enable the movement of products, services, and data. Enhancing the durability of infrastructure can heighten the appeal of SEZs to prospective investors and foster cooperation among participants in the network (Neil M. Coe & Henry Wai-Chung Yeung, 2015).

2) *Enhancement of Skills and Human Capital*

The success of SEZ in the GPN hinges on the cultivation of a skilled workforce. Allocating resources toward education, vocational training, and skill development initiatives can bolster the proficiency of local laborers and entice international corporations to seek out a highly qualified workforce (Neil M. Coe & Henry Wai-Chung Yeung, 2015).

3) *Supply Chain Integration*

Supply chain integration is a fundamental element in establishing SEZs within GPNs. Promoting connections among regional suppliers, manufacturers, and international consumers can foster cooperation, exchange of expertise, and diffusion of technology. Promoting the practice of multinationals engaging in local procurement can help to integrate SEZs seamlessly into broader networks (Neil M. Coe & Henry Wai-Chung Yeung, 2015).

It is argued that BNC theoretical variables can influence the global production network, particularly through a comprehensive SEZ policy. The strategy emphasizes stakeholder involvement, negotiation, and mutual benefit to build long-term cooperation and network success (Coe & Yeung, 2015; Kuswanto et al., 2016; Prado, 2007).

RESEARCH METHOD

This research utilized a qualitative method. Qualitative research involves using specific tools to analyze the state of scientific subjects (Luigi Curini & Robert J. Franzese, 2020). It studies a specific topic in great depth by collecting data that emphasizes the richness and detail of the information being examined. Qualitative methods analyze descriptive data such as transcriptions, interviews, and documentation. Accordingly, qualitative research tries to uncover and reflect upon a phenomenon, fact, condition, or variable that emerges during the study process (Lamont, 2015).

This study examined Mandalika SEZ using descriptive qualitative analysis. Utilizing a mixed-method approach, this study combined primary data obtained from in-depth interviews with key stakeholders from the Mandalika

Operation (ITDC), the Central Lombok Regency Tourism Department (Regency Government), Head of MHA Samsul Bahri, JM Hotel, Tunak Resort (Industry actors from Mandalika Hotel Association), and local NGOs, and secondary data collected from various sources such as international journals, books, news articles, documents, and reports.

This comprehensive method enabled a detailed comprehension of the intricate dynamics within Mandalika SEZ by combining firsthand perspectives gathered through interviews with broader contextual insights from secondary sources. The research aims to analyze a combined data set using a framework that integrates MLG and BNC theories to illuminate the complex interplay between governance structures, stakeholder interactions, and collaborative processes influencing the development and impact of Mandalika SEZ.

RESULT AND ANALYSIS

INDONESIA'S EMPIRICAL CASE OF SEZ

SEZ development in Indonesia appears to be ideal because of issues with regulations, implementation, and political and economic risk. Thus, this research is vital for advocating an innovative approach by integrating the MLG and BNC theories to enhance positive outcomes and mitigate risks.

MLG Factors: Alignment-Institutional Collaborations-Stakeholder Engagement and Regulatory Framework

According to Sandiaga Uno, the Minister of Tourism and Creative Economy, SEZs have played a significant role in boosting economic growth. Specifically, between 2016 and 2018, SEZs contributed to a 14.68% increase in GDP and a 68.85% increase in Regional Natural Income in each respective region (Ministry of Tourism and Creative Economy of the Republic of Indonesia, 2019). However, his claim is in direct opposition to this study's observations. The assertion he made on his achievement is entirely disconnected from Mandalika SEZ's experience. This issue demonstrates the inconsistency at the central government level, specifically

between the Ministry of Tourism and the Ministry of State-Owned Enterprises (SOEs). It was particularly evident in the challenges related to financial losses and constraints in organizing sports tourism events such as MotoGP and World Superbike (WSBK). The WSBK alone incurred losses of IDR 100 billion, while the Mandalika SEZ project managed by the ITDC accrued a debt of IDR 4.6 trillion (CNN, 2023). ITDC is part of the SOE Ministry. It demonstrates that ministerial agencies differ in terms of the integrity of the vision and mission while deciding the strategy and funding for Mandalika SEZ. Erick Thohir, Minister of SOEs, suggested reevaluating or canceling financially costly sports tourism events due to huge financial losses (CNN, 2023). However, Sandiaga Uno stated that the sports tourism event would boost Mandalika's economy. He also emphasized the importance of management in increasing and managing sports tourism events as a significant component of Mandalika SEZ rather than ignoring current events (KOMPAS, 2023). He has considered offering financial assistance to WSBK. Contrarily, Erick Thohir pointed out that the Ministry of Tourism and Creative Economy assisted solely for one out of the three WSBK events (KOMPAS, 2023).

On the contrary, the NTB regional administration attributed the financial deficit of the WSBK to the ITDC organizers' inadequate expertise and dedication rather than a shortage of sponsors. This perspective aligns with President Joko Widodo's insistence on emphasizing a reassessment of the comprehensive economic repercussions of the incident rather than solely concentrating on the incurred losses (CNBC, 2023). The issue highlights the importance of transparency in exposing the deficiencies in coordination and collaboration, even at the highest level of the central government among different ministries.

1) *Dilemma of Policy Alignment in SEZ Development*

Policy alignment in SEZs is essential for avoiding conflicts, fostering collaboration between businesses, governments, and communities, and demanding multi-level governance (Coe & Yeung, 2015). However, the actual implementation of policy coordination in Mandalika SEZ has not been

achieved. One example is the conflicting stances between central and regional governments on luxury hotel permits. Initially, the district government supported limiting luxury hotels to the SEZ. Still, it later reversed course, pressuring investors to build outside the SEZ. This inconsistency created potential unfair competition for Mandalika SEZ (Syarif Hidayat & Siwage Dharma Negara, 2020). A Government Tourism Department representative confirmed the findings. He stated that the regulation would only restrict investors from building luxury resorts. "ITDC previously banned three-star hotels. However, our southern research implies that luxury hotels should not be limited to indoors or outside of SEZ. The Head of Regional Development and Planning Agency (Bappeda) also stressed that ITDC should not hinder luxury hotel development." The five-star hotel licensing restriction has reduced Lombok's tourism competitiveness, and the ITDC may enhance the promotion of SEZ tourism (Participant 2).

The second example is that the Mandalika Hotel Association (MHA) clashed with the governor's price control goals, a conflict stemming from the government's lack of preparation for international sporting events. The MHA argued that the governor misunderstood the market dynamics of supply and demand, dictating hotel prices as Mandalika gained popularity. This misunderstanding may be fueled by false claims from Jakarta hotel brokers about excessive price hikes. The MHA urged the governor to verify such claims before imposing price regulations. While some price increases are inevitable and expected by guests, extreme gouging needs to be addressed (Participant 3).

Beyond pricing issues, the government's lack of preparation for the tourism SEZ has also been highlighted. Top-down governance has created challenges in implementing policies with local authorities, leading to potential conflicts and diverging interests. Limited regional leadership capacity could hinder the collaboration needed for effective multi-level governance and consistent policy implementation across stakeholders (Prado 2007).

Conflicts between central and local governments have created dilemmas and challenges for building regional assets within the SEZ, hindering collaboration. Regional leaders need strong negotiation skills to bridge interests across sectors and levels. To avoid political and social tensions that could harm investment and well-being, a communication platform for inter-agency collaboration is needed, requiring both top-down intervention and strong bottom-up initiatives.

2) *The Vital Development of Institutional Collaboration*

Institutional collaboration ensures multi-level governance effectiveness and policy-action alignment (Hazakis, 2014; Piattoni, 2009). There has been a lack of collaboration among institutions in developing Mandalika SEZ, leading to inconsistent on-site practices. Government and local communities faced contradictory policies due to top-down centralization. ITDC has yet to effectively collaborate with local stakeholders. Unlike other regions in Lombok, where local governments led in developing new destinations, ITDC remained exclusive, failing to promote wider Lombok tourism. The Regional Tourism Department, facing limited resources, believed ITDC and local governments should partner to promote tourism spots beyond the SEZ, creating a broader, more successful Lombok tourism ecosystem (Participant 2).

Conflict erupted between Bappeda and ITDC's Mandalika SEZ design. Bappeda, despite holding ultimate regional development plan authority, was excluded from the SEZ's planning, impacting infrastructure, territorial planning, and implementation. This lack of collaboration with regional institutions indicates insufficient planning and effectiveness within the MLG and BNC governance framework. Consequently, policy inconsistencies and a decline in trust between the SEZ body and regional regulators emerged. As Syarif argued, achieving national significance for Mandalika SEZ requires collaborative efforts between ITDC, Bappeda, and the regency administration to reach a consensus on the plan's design and implementation (Syarif Hidayat & Siwage Dharma Negara, 2020).

3) *Lack of Stakeholder Engagement*

The Mandalika circuit project faced criticism from local NGOs and leaders due to limited community involvement. They argued that the central government supported the initiative without delivering regional benefits. President Joko Widodo's administration restricts NGO and public input on the development. ITDC's poor communication with the government and public has hindered plans for sustainable sports tourism (Participant 4). As Mandalika SEZ's governing authority, ITDC should boost Lombok tourism and bring in central government funds. However, research disclosed that ITDC has not fostered strong ties with Lombok tourism stakeholders, often causing conflict. ITDC operated unilaterally, leading to disputes, such as land conflicts, where villages and NGOs felt excluded. ITDC preferred direct landowner negotiation, bypassing village leaders. They checked purchased land ownership and addressed continued claims through legal channels (Participant 1).

The protracted resolution of the ITDC disagreement is what contributes to the reputation of investors in Mandalika SEZ. The Asian Infrastructure Investment Bank (AIIB) stated that the Indonesian Coalition strongly criticized investors for Monitoring Infrastructure Development (KPPH) for their inadequate performance due diligence procedures and their insufficient efforts to mitigate the risk of dispute termination. The Infrastructure Development Monitor Coalition held AIIB and ITDC responsible for alleged intimidation against communities affected by the Mandalika SEZ project (Amien, 2023). AIIB's investigation cleared them of wrongdoing regarding the separately funded MotoGP Circuit. However, AIIB supported the SEZ and believed it could follow Nusa Dua's success. Critics argued that ITDC's Nusa Dua management model has failed in Mandalika due to differing locations and socioeconomics. They believed ITDC's imposed shift from nature-based to sports tourism mismatched the region's potential (Participant 4).

According to some sources, ITDC avoided engaging civil society and local leaders in Mandalika's development to minimize social friction, especially regarding land disputes. This formal exclusion, rather than inclusion, fuelled land issues driven by brokers and local officials. Public figures believed their involvement could expose these profit-driven practices, intermediating fear (Participants 3 and 4). In Mandalika SEZ, difficulties and sociological occurrences seem to cause conflicts of interest between the central government, local government, and ITDC. Ineffective inter-agency coordination has increased tensions and overshadowed regional asset development throughout Mandalika SEZ bargaining and cooperation. Tourism's economic issues have created possible social and political conflicts, which the MLG and BNC assessment focuses on. The assessment attempts to enhance social capital in investment-related development (Neil M. Coe and Henry Wai-Chung Yeung 2015). Thus, this explanation clearly indicates that ITDC ran Mandalika SEZ with a lack of alignment across levels, sectors, and actors, underlining MLG and BNC's planning and execution issues.

4) *Regulatory Framework*

MLG-BNC integration requires a solid, stakeholder-friendly regulatory framework. It would ensure that SEZ works as intended as a critical GPN component that benefits the government, society, and investors. The regulatory system needs intellectual property, legal clarity, contract enforcement, employment, and environmental standards. A rule that fosters trust, cooperation, and long-term alliances among network participants is also required (Neil M. Coe & Henry Wai-Chung Yeung, 2015).

The administration has reformed various policies that are unfavorable to industry and investment. In light of these disadvantages, the government has implemented omnibus reforms. The Indonesia Parliament passed Law No. 11 of 2020, the Labour Creation Act, in November 2020. Furthermore, the

SEZ has been undergoing regulatory revisions aimed at fostering a more lucrative investment climate and enhancing its appeal through the provision of diverse amenities and services (ITDC, 2019). According to local government and community sources, the regulatory framework of the Labour Creation Act was unequal and too centralized, resulting in advantages for businesses. Meanwhile, ITDC believed that Mandalika SEZ has benefited from collaborating with an international chain with a widespread marketing and market network since it helped attract foreign investors (Participant 1).

Public and NGO sources asserted that the ITDC has faced pressure to accommodate and manage significant local investors associated with political enterprises. The sources disclosed that the expansion of Mandalika SEZ was driven by political objectives, with firms or oligarchs making investments through brokers associated with regional governments (Participant 4). The sources additionally highlighted the lack of transparency and democracy in Mandalika SEZ investor assistance. Some indigenous investors were from Jakarta, but Mandalika was unlikely. The Jakarta oligarchy prevented the ITDC from optimizing SEZ growth (Participant 3).

The legislative reforms intended to streamline and elucidate the implementation of the Labour Creation Act presented difficulties and impediments to the progress of Mandalika SEZ, as the escalating political discord between the central and regional governments, along with the potential to intensify local social conflicts, added to the challenges. Thus, establishing the legal and regulatory framework was not enough without implementing it to encourage collaboration among SEZ stakeholders. The regulatory framework has facilitated MLG and BNC within international, national, and subnational networks to create an efficient and harmonious global production network. In short, the success of MLG and BNC relies on regional leaders' intelligence and experience in negotiating with business, governmental, and social interests.

BNC Development Processes: Infrastructure Development, Human Capital Development, And Supply Chain Integration

The primary principle of BNC aims to foster regional development through three key elements: (1) value capture, (2) industrial and social upgrading, and (3) sustainable growth trajectory. The effectiveness of constructing an SEZ reserve that encompasses multi-levels, multi-actors, and multi-sectors relies heavily on these three characteristics. The objective of regional development within the BNC process is to establish an industrial hub that leverages regional assets (see Figure 1), including (1) technology and know-how, (2) industrial organization, and (3) territorialized politics and social (Coe & Yeung, 2015)

1) *Regional Asset Development: Infrastructure*

Infrastructure development is key to attracting global networks to the SEZ. Transparent planning must involve multiple levels of government to ensure efficient transportation and communication. ITDC's success in securing investment from AIB, Vinci Construction, and others demonstrates the importance of this initial step for future bargaining and cooperation (ITDC, 2019). Despite strong support from the central government, ITDC's progress suffered from limited local participation in infrastructure planning. This lack of local involvement contradicts the core principles of MLG and BNC theories (Participants 2, 3, and 4).

Data from the Ministry of Public Works and Public Housing unveiled that the central government has implemented infrastructure development projects. These include the construction of a bypass road connecting Lombok International Airport (BIL) with Mandalika SEZ, as well as the expansion of the Kuta-Keruak road by adding columns to increase its capacity (Ministry of Public Works and Public Housing of the Republic of Indonesia, 2021). In Mandalika, the government has renovated homes to create homestays for tourists. In addition to hotels, the program has offered tourists other housing possibilities. The government converted ships into

floating hotels for MotoGP (Ministry of Finance of the Republic of Indonesia, 2023). However, the top-down approach in the SEZ development process suggested a potential lack of collaboration with local governments and communities regarding transportation needs. Locals might lack efficient public transportation options to access the SEZ for work or services, hindering the economic benefits for surrounding areas. Additionally, without proper integration with existing transportation networks in Lombok, the SEZ might become an isolated entity, limiting its full tourism potential and accessibility (Caraka et al., 2023).

2) *Regional Asset Development: Human Capital*

ITDC struggled to effectively empower local communities and tourism actors. MLG and BNC theories emphasize a skilled workforce for regional development. Education and training programs could enhance local skills and appeal to global companies. Human capital development would benefit SEZ procurement and cooperation. ITDC has implemented CSR initiatives like language training and entrepreneurship programs, but their effectiveness remained unclear. ITDC provided various community support programs, leading to a workforce increase of 1,494 in 2021 compared to 1,161 in 2020 (ITDC, 2021).

However, Labor Minister Fauziah highlighted low Mandalika employment despite locals exceeding basic skill requirements. The ministry responded by creating training programs to develop skilled workers (KOMPAS, 2023). According to the MHA, ITDC favored hiring outside of West Nusa Tenggara. Even for event security, ITDC preferred Jakarta-sourced personnel over locals due to their qualifications, reducing trust between ITDC and the community (Participant 3). Hence, ITDC's efforts to train local workers for industrial and social progress were inadequate, likely stemming from a lack of trust in the local workforce (Participant 3). According to the theory, local labor absorption is a component of territorialized politics and social interactions. Its purpose is to facilitate the development of the area and optimize the integration of supply chains within the region (Coe & Yeung, 2015).

ITDC’s success in developing Nusa Dua showcases their potential to replicate success with sport tourism in Mandalika. Strategic coupling, vital for tourism growth, is demonstrated by ITDC’s ability to connect key industry players. The success of sports tourism events is evident in increased hotel occupancy (Participant 3).

3) *Regional Asset Development: Integrating Supply Chain of Mandalika SEZ*

SEZs hold immense potential to attract businesses and stimulate economic growth. However, their success hinges on their ability to foster collaboration and integration, particularly within the realm of supply chains (Al-Alaween, Qamar, Almomani, & Jreissat, 2013). Limited integration between local businesses and global players has hindered Mandalika’s full potential. According to reliable sources at MHA, the ITDC program lacked continuity. Following the conclusion of each sports tourism event, the occupancy rate would subsequently decline due to the limited duration of stays, often ranging from 3 to 6 days. Consequently, tourism activity in Mandalika SEZ would subside, leading to an unstable economic situation (Participant 3). Mandalika SEZ development has prioritized investment in tourism infrastructure, potentially neglecting local assets. This approach

deviates from the BNC theory, which emphasizes collaboration for regional development (Suryade, Fauzi, Achسانی, & Anggraini, 2022).

Tourism attractions in the adjacent villages of Lombok, including water sports and cultural tours, lacked proper management. The ITDC exclusively concentrated on building ceremonial programs for athletic tourism, neglecting the opportunity to cultivate other attractions with significant potential to enhance visitor appeal (Participant 3). It indicates that ITDC has not fostered a harmonious relationship with local communities, hindering the development of regional assets and social progress. This lack of collaboration contradicts the BNC theory, which emphasizes stakeholder engagement for successful SEZ development. Furthermore, ITDC’s responsibilities have been magnified by neglecting social and structural concerns within the region. Conversely, BNC theory suggests that collaborative platforms and knowledge sharing between local and global stakeholders are crucial for SEZ success (Coe & Yeung, 2015).

The Ministry of Tourism and Creative Economy has built 21 supply chains for Mandalika, a popular tourist destination, and the creative economy. The goal is to create an integrated supply chain for hospitality, tourist micro, small and medium enterprises (MSMEs), and a creative economy with a

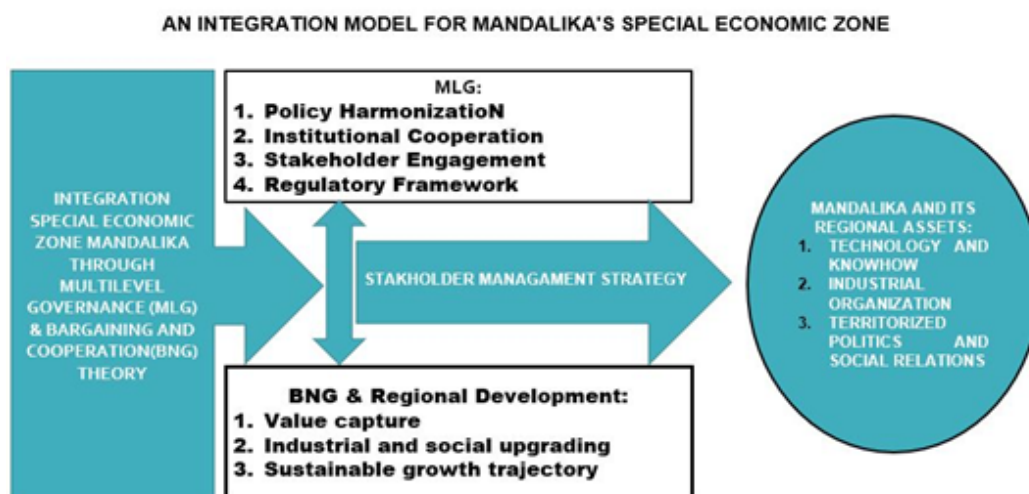


Figure 2. Model Integration in Mandalika SEZ (Source: Processed by Authors, 2023)

cooperative value of up to IDR 2.2 billion. The Business Meeting of the Tourism Industry and the Creative Economy in Mandalika SEZ brought together 96 MSMEs and 27 hospitality companies to integrate industrial supply chains. The program encouraged entrepreneur collaboration and the 'Buy Local Products' policy to improve supply chain systems in West Nusa Tenggara, notably in the Mandalika Special Priority Destination Area (Ministry of Tourism and Creative Economy of the Republic Indonesia, 2022).

Despite having a plan, ITDC provided minimal support to local supply chains within the SEZ, hindering MSME growth. Instead of building infrastructure, ITDC charged high rental fees for business spaces, exacerbating the challenges MSMEs face in the post-pandemic market. The lack of tourist attractions beyond sporting events has limited opportunities (Participants 3 and 4). Critiques cited ITDC's inefficient integration of local supply chains, favoring external sources. While ITDC claimed to be working on incorporating SMEs, their actions contradict the goals of building a sustainable SEZ (Participant 1). The government's goal of transforming ITDC into a tourism growth engine remained unfulfilled. Weak supply chain integration efforts have hindered the SEZ's success. ITDC's centralized approach has focused solely on infrastructure, ignoring the crucial broader development goals that would benefit all stakeholders.

Mandalika SEZ is a clear example of a top-down approach and a manifestation of neoliberalism because the operator "ITDC" effectively managed the SEZ in Nusa Dua Bali. However, Mandalika has encountered further challenges due to the altered economic structure of tourism. ITDC Nusa Dua could establish more seamless collaborations with the local government and community than Mandalika. Neoliberal ITDC Nusa Dua implemented multi-level governance coordination, whereas ITDC Mandalika did not.

A model was proposed to prevent the occurrence of development phenomena in Mandalika SEZ, as illustrated in Figure 2. This recommendation is

on the identification of several challenges and dynamics.

Figure 2 proposes a new framework for Mandalika SEZ stakeholder management, combining MLG and BNC theories. It tackles the complexities of SEZ development, particularly conflicting interests and political risk. MLG principles ensure coordinated policies, collaboration, and stakeholder engagement across government levels. BNC principles address conflicts between government, communities, and different government levels, aiming to reduce political risk and achieve beneficial outcomes through negotiation and collaboration. Ultimately, the framework aims to create a sustainable tourism model that attracts investment while considering local well-being and environmental protection.

CONCLUSION

This study discovered that Mandalika SEZ's structural dynamics were politically and socially detrimental. Thus, building a sport tourism-based tourist region was hampered and possibly risked political and social stability. By examining the GPN, MLG, and BNC, this study concluded that Mandalika's efforts to establish an SEZ with less political and social risk were unsuccessful.

The investigation disclosed that investors, local businesses, and tourists lacked coherence in regional asset production. Mandalika community and governments must accept ITDC-controlled Mandalika SEZ's less cooperative regional development aspirations. Regional development has failed to exploit sport tourism's worth compared to natural tourism in Mandalika. Economic issues, uncoordinated regulatory considerations, inadequate multi-level coordination, and restricted social engagement contributed to the lack of positive industrial and social upgrading and sustainable growth. Therefore, the strategic coupling process among GPN participants to produce regional assets for regional growth has failed because global industry chains have not invested in or expanded visits. In 2018–2023, Mandalika events did not enhance tourist visits within the SEZ or outside it.

This study identified several barriers hindering Mandalika SEZ's growth, including inconsistent policies, poor coordination between agencies, limited stakeholder involvement, and gaps in infrastructure, human resources, supply chains, and collaboration. While sports tourism holds potential, it could also have negative impacts on regional development. This study applied GPN, MLG, and BNC theories to understand SEZ development complexities, highlighting the need for integration to ensure success. Crucially, the research questions the GPN framework's oversight of SEZs' impact on social capital and local economies. It makes two significant contributions: firstly, it emphasizes the need to evaluate SEZ impacts on locals and broader economies. Secondly, it proposes using MLG and BNC frameworks together. MLG encourages stakeholder involvement, while BNC highlights cooperation as vital for establishing SEZ business networks. The study presents a model to address the identified challenges.

REFERENCE

- Al-Alaween, A., Qamar, A. M., Almomani, H., & Jreissat, M. E. (2013). Evaluates Roles of Special Economic Zone Authority to Enhance Companies Supply Chain Integration. *International Journal of Supply Chain Management*, 2(1).
- Amien. (2023). KPPII Press Release: Survey of communities affected by the AIB-funded Mandalika tourism project finds widespread human rights violations and devastating rise in poverty.
- Caraka, R. E., Wardhana, I. W., Kim, Y., Sakti, A. D., Gio, P. U., Noh, M., & Pardamean, B. (2023). Connectivity, sports events, and tourism development of Mandalika's special economic zone: A perspective from big data cognitive analytics. *Cogent Business and Management*, 10(1). doi:10.1080/23311975.2023.2183565
- CNBC. (2023). Jokowi about MotoGP Mandalika: There is still something to be evaluated.
- CNN. (2023). Erick Thohir Opens up about Mandalika Circuit Loss 100M IDRWSBK Effect.
- CNN. (2023). Recognize the Mandalika KEK that inherited Rp. 4.6 trillion.
- Cheng, T. (2019). Special economic zones: A catalyst for international trade and investment in unsettling times? *Journal of World Investment and Trade*, 20(1), 32–67. doi:10.1163/22119000-12340122
- Enderlein, Henrik., Wälti, Sonja., & Zürn, M. (2010). *Handbook on multi-level governance*. Edward Elgar.
- Friedman, M. (1962). *Capitalism and Freedom*. University of Chicago Press.
- Guridno, Eddy. (2021). Relationship Of Authority And Control In 30 Years Nusa Dua Bali Tourist Resort. *Palarch's Journal Of Archaeology Of Egypt/Egyptology* 18 (8): 2939–58.
- Hazakis, K. J. (2014). The rationale of special economic zones (SEZs): An Institutional approach. *Regional Science Policy & Practice*, 6(1), 85–101. doi:10.1111/rsp3.12030
- ITDC. (2019). *Racing to a Sustainable Future 2019*.
- ITDC. (2021). *RESILIENT IN THE FACE OF CHALLENGES*.
- Karim, M. F., Mursitama, T. N., Riyadi, S. F., Affandi, R. A., & Muzdalifa, F. (2023). Informality, Paradiplomacy, and Cross-Border Cooperation: The Development of Tourism on Bintan Island, Indonesia. *Asian Studies Review*, 1–19. doi:10.1080/10357823.2023.2259080
- KOMPAS. (2023). Different opinions of Erick Thohir and Sandiaga Uno about WSBK Mandalika's losses and will be wasted.
- Kuswanto, K., Hoen, H. W., & Holzhacker, R. L. (2016). Decentralization, Foreign Direct Investment and Development in Indonesia. In *Decentralization and governance in Indonesia* (pp. 1–292). Springer International Publishing.
- Lamont, C. (2015). *Research methods in International Relations*. SAGE.
- Luigi Curini, & Robert J. Franzese. (2020). *The SAGE Handbook of Research Methods in Political Science and International Relations*.
- Ministry of Finance of the Republic of Indonesia. (2023). Construction of the Mandalika Circuit on the Lombok Economy.
- Ministry of Public Affairs of the Republic of Indonesia. (2021). PUPR Ministry: BIL - Mandalika Bypass Road Ready to Be Inaugurated Ahead of World Motor Super Bike 2021 and MotoGP 2022.
- Ministry of Tourism and Creative Economy of the Republic of Indonesia. (2019). Positive Impact of Special Economic Zones.
- Neil M. Coe, & Henry Wai-Chung Yeung. (2015). *GLOBAL PRODUCTION NETWORK* (First). Oxford University Press.
- Piattoni, S. (2009). Multi-level governance: a historical and conceptual analysis. *Journal of European Integration*, 31(2), 163–180. doi:10.1080/07036330802642755
- Porter, M. E. (2008). *Regional Competitiveness in a Global Economy*. Retrieved from www.isc.hbs.edu.
- Prado, C. de. (2007). Global Multi-level Governance: European and East Asian Leadership, by C. de Prado. *Journal of Common Market Studies, Journal of Common Market Studies*, 46(4), 905–906.
- Sattarov, S. (2018). Special Economic Zones as an Engine of Regional Economic Development: The Best Practices and Implications for Uzbekistan. *INTERNATIONAL JOURNAL OF MANAGEMENT SCIENCE AND BUSINESS ADMINISTRATION*, 4(4), 48–55. doi:10.18775/ijmsba.1849-5664-5419.2014.44.1006
- Soviah, S., Maulana, D., & Nugroho, A. (2020). *Governance of Tourism Management in the Tanjung Lesung Special Economic Zone* (Vol. 11). Retrieved from https://www.kabar
- Suryade, L., Fauzi, A., Achsan, N. A., & Anggraini, E. (2022). The Development Policy Strategy of The Mandalika Tourism Special Economic Zone, Lombok. *Media Konservasi*, 27(1), 1–10.
- Syarif Hidayat, & Siwage Dharma Negara. (2020). Special Economic Zones and the Need for Proper Governance. *Contemporary Southeast Asia*, 42(2), 251–275.
- Telfer, D. J., & Sharpley, R. (2016). *Tourism and Development in the*

Developing World (2nd ed.). Routledge.

Vennesson, P. (2008). Case studies and process tracing: Theories and practices. In *Approaches and Methodologies in the Social Sciences: A Pluralist Perspective* (pp. 223–239). Cambridge University Press. doi:10.1017/CBO9780511801938.013

World Bank. (2008). SPECIAL ECONOMIC ZONES PERFORMANCE, LESSONS LEARNED, AND IMPLICATIONS FOR ZONE DEVELOPMENT. FIAS.

Yeung, H. W. Chung. (2015). Regional development in the global economy: A dynamic perspective of strategic coupling in global production networks. *Regional Science Policy and Practice*, 7(1), 1–23. doi:10.1111/rsp3.12055