

# State Capitalism In The Tourism Sector: Mandalika Special Economic Zone Study

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## **Abstract.**

*This research observes the transformation process of tourism development governance that leads to strengthening the role of state capitalism. This research describes the regulatory trajectory of state capitalism in the tourism sector in three eras of government and identifies the style of state capitalism and its implications for the development of the Mandalika Special Economic Zone. This research uses a qualitative method with data collection techniques in the form of in-depth interviews and secondary data review. This research is analyzed from the perspective of technocratic state capitalism. The results of this study show that the regulatory trajectory in the three eras of government contributed to regulatory instrumentation in supporting state capitalism in the Mandalika tourism sector. The active role of the state in building the power of state capitalism in the development of the mandalika area is seen from several aspects including the creation of a policy framework, the provision of regulatory instruments, the provision of infrastructure as well as the main driver of economic activity in the region. The practice of state capitalism in the operationalization of the Mandalika SEZ is characterized by developmental state capitalism. This practice has succeeded in encouraging regional infrastructure development by absorbing investment while mobilizing State-Owned Enterprises in various strategic sectors such as construction, financing and financing guarantees, and Tourism SOEs. In conclusion, the development of state capitalism in the tourism sector goes hand in hand with the development of the tourism economy as one of the sectors that support Indonesia's economic growth.*

**Keywords:** State Capitalism, Tourism and Special Economic Zones.

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## **I. INTRODUCTION**

State capitalism is a manifestation of capitalist infiltration practiced by the state that is not limited to market facilitation policies but is directly and actively involved as a market actor. Several studies show that the development of state capitalism has positive goals, namely as a response to stabilizing the economic crisis due to market failure [1] and providing state policy support through SOEs in supporting the optimization of economic growth performance [2]. However, some studies also show skepticism towards the state capitalism approach, which is considered not limited to economic goals but also political domination motives [3]. In addition, uncontrolled state involvement is feared to blunt competition, politicize economic relations and increase geo-economic tensions [4]. State capitalism in Indonesia has been practiced in various eras of government. The practice is not only seen in terms of state facilitation policies on market actors but is directly involved in economic and development activities through the role of State-Owned Enterprises (SOEs). Several studies show that Indonesian state capitalism has several characteristics such as state involvement in economic development to increase ownership and accumulation of capital through the role of state companies [5], Mobilization of Public Capital to finance development sponsored and implemented by SOEs [6] and the involvement of SOEs as an effort to strengthen development policies [7]. Recently, the role of the state in encouraging the creation of economic circularity to support growth has shown an increasing trend. Under President Joko Widodo's administration, SOEs have grown to become agents of development in Indonesia's state capitalism [8].

The role of SOEs has been expanded not only in strategic economic resource management activities but also in carrying out national strategic projects. The expansion of the role of SOEs in various business sectors is quite significant along with the SOE ecosystem built through 91 SOEs spread across 12 industrial

sectors. The large number of SOEs does not include subsidiaries and sub-subsidiaries that support the supply chain management of the economic activities carried out. From the SOE ecosystem, the total valuation of state assets invested reaches 2,469 trillion rupiah. Indonesia's state capitalism approach with the extensive role of SOEs in various sectors is one of the differences with the practice of state capitalism in various countries. China, for example, distinguishes the practice of community economy (entrepreneurship) in the food industry sector and state corporations in the strategic sector [9]. China tends to make institutional arrangements in the practice of state capitalism where there are sectoral divisions in market coordination and distribution of property rights for the purpose of economic power, security and growth where strategic sectors such as telecommunications are managed by the state and non-strategic sectors such as textiles the state relinquishes its control [10]. Likewise, Vietnam tends to apply market segmentation in the practice of state capitalism where the textile, garment and telecommunications sectors are run by the state and the automotive sector is run with a crony capitalism style. In the case of Vietnam, state capitalism is implemented by combining the approach of state intervention and gradual market openness [11].

Differences in the practice of state capitalism are acceptable considering that state capitalism depends on technocratic interpretations in each different country. In addition, differences in the practice of state capitalism are also determined by the characteristics of institutional arrangements [10], the institutionalization process, multinational companies and state wealth [12] and the state's response to economic stabilization [1]. Based on some of these studies, it shows that the style of state capitalism practiced by each country is different. Indonesia has the opportunity to practice state capitalism to a large extent when viewed from the massive number of SOEs, the heterogeneity of natural resource wealth and the goal of achieving an optimal level of economic growth. Several studies in Indonesia have identified the role of SOEs in Indonesian state capitalism in several strategic industry sectors. The role of SOEs in Indonesia's state capitalism has entered a very broad range of industries including finance, natural resource management, infrastructure, banking manufacturing, distribution of basic commodities, trade, agriculture, construction and transportation [5]. The position of SOEs is increasingly strategic as they strengthen their role in the banking, energy telecommunications and mining sectors [2]. The state is increasing its dominance through the provision of investment and capital in projects implemented by SOEs. This is inseparable from Indonesia's state capitalism which is characterized by developmental state capitalism [7]. Not many studies of Indonesian state capitalism have explored the tourism sector. Even though development in the tourism sector is one of the economic fields that is consistently and massively driven in national economic policy. This is in line with the development of six Special Economic Zones (SEZs) in the tourism sector spread across six Indonesian economic corridors.

In addition, the SEZ development policy is also strengthened by the Super Priority Destination Development Program (DSP) which is spread across five provinces namely North Sumatra, Central Java, West Nusa Tenggara, East Nusa Tenggara and North Sulawesi. This research was conducted in the Mandalika area, Central Lombok Regency, West Nusa Tenggara Province. Mandalika area can be an ideal example in describing the development of state capitalism in the field of tourism in Indonesia for several reasons. First, historically the Mandalika area was developed across government eras, from the era of President Soeharto's administration to President Joko Widodo's administration. These conditions open up space for researchers to describe the regulatory trajectory of the development of state capitalism in tourism across government eras to show the tendency of the movement of state capitalism regulatory instrumentation in tourism. Second, Mandalika policy is one of the tourism areas that has the status of a Special Economic Zone as well as a Super Priority Destination, so it is quite relevant in describing the practice of state capitalism in the development of the Indonesian tourism sector. Third, tactically, the Mandalika Region is an area with massive development progress and has become one of the centers of tourism attention along with its status as the organizer of the MotoGP Event supported by a network of National BUMNs, allowing researchers to provide an operational picture of state capitalism in the Mandalika tourism sector through regulatory trajectories and opportunities and challenges in regional development. Mandalika area is designated as a Special Economic Zone based on Government Regulation Number 42 of 2014.

The regulation also establishes the Indonesia Tourism Development Corporation (ITDC) as a state-owned enterprise that is the business entity that builds and manages the area. In 2017 KEK Mandalika officially operated the first phase and provided 345 hectares of land to investors. Of the several investors involved in business activities in Mandalika SEZ, one of the highlights is ITDC's cooperation with Vinci Construction Grand Project (VCGP) for the utilization of 131 ha of land for the development of the Sportainment Area. In the sportainment area, one of them is built an International Racing Circuit. Construction of the Mandalika Circuit began in 2020. The pandemic conditions that occurred did not become an obstacle in the process of building the Mandalika circuit. In 2020 the Government issued Presidential Regulation Number 18 of 2020 concerning the National Medium-Term Development Plan for 2020-2024, which also designated Mandalika SEZ as one of the Super Priority Destinations. Through this policy, the Mandalika Circuit construction process can continue along with the plan to organize the World Superbike Championship and MotoGP events at the Mandalika Circuit. In November 2021, the Mandalika Circuit was inaugurated at almost the same time as the implementation of the 2021 WSBK Championship Event and then continued to host the MotoGP organizers in 2022. The Mandalika area shows a significant development trend in infrastructure development and event organization. This is supported by the status of Mandalika SEZ as one of the SEZs with Optimal Performance seen from investment absorption (National SEZ Council Report 2022). However, approaching the third year of organizing the WSBK Championship Event and the second year of organizing MotoGP at the Mandalika Circuit, Injournery as the Tourism Holding Parent where ITDC as BUPP is based actually raises the discourse of reviewing the two events because it causes a large revenue deficit.

This reality raises questions about how the governance of state capitalism in the tourism sector is implemented so that it has not had an optimal impact. Whereas the involvement of the state as state capitalism aims to optimize economic growth. To find out about this problem, this research offers a process of identifying the problem of Indonesian state capitalism in the tourism sector through tracing the regulatory trajectory in the long process of developing the Mandalika Special Economic Zone. The results of tracing the regulatory trajectory are analyzed from the perspective of state capitalism which relies on technocratic interpretation in the process of developing the Mandalika area. The theory of state capitalism based on technocratic interpretation of the state is used to see the characteristics of the state capitalism approach used by the state in involving SOEs in the development and management of power.

This study aims to;

1. Describe the trajectory of Indonesia's state capitalism regulation in the tourism sector in three eras of government.
2. Identify the style of state capitalism in tourism and its implications for the development of the Mandalika Special Economic Zone and local communities.

## II. METHODS

This research uses a qualitative case study research method. The trajectory of the development of state capitalism in the tourism sector will be traced based on the periodization of the development of the Mandalika area in three eras of government, namely the Suharto Presidential Administration, the Susilo Bambang Yudhoyono (SBY) Presidential Administration and the Joko Widodo Presidential Administration. The regulatory trajectory of the development of the Mandalika area in the three eras is very relevant to the context of national tourism development policies, especially in the Mandalika area where the Suharto era was the first to establish the Mandalika area as one of the Tourism Destination Areas (DTW) which then continued with the establishment of the Lombok Tourism Development Corporation (LTDC) in 1990. Meanwhile, during the reign of President SBY, the Special Economic Zone policy as a format for developing tourism areas was first implemented in 2011. While the era of President Joko Widodo's administration played a role in the development of the Mandalika SEZ as a Super Priority Destination.

The database of this research is sourced from primary and secondary data. Primary data collection was carried out through in-depth interviews with local people who were relocated due to development in the Mandalika Circuit, the general public who carried out economic activities in the area, government officials at

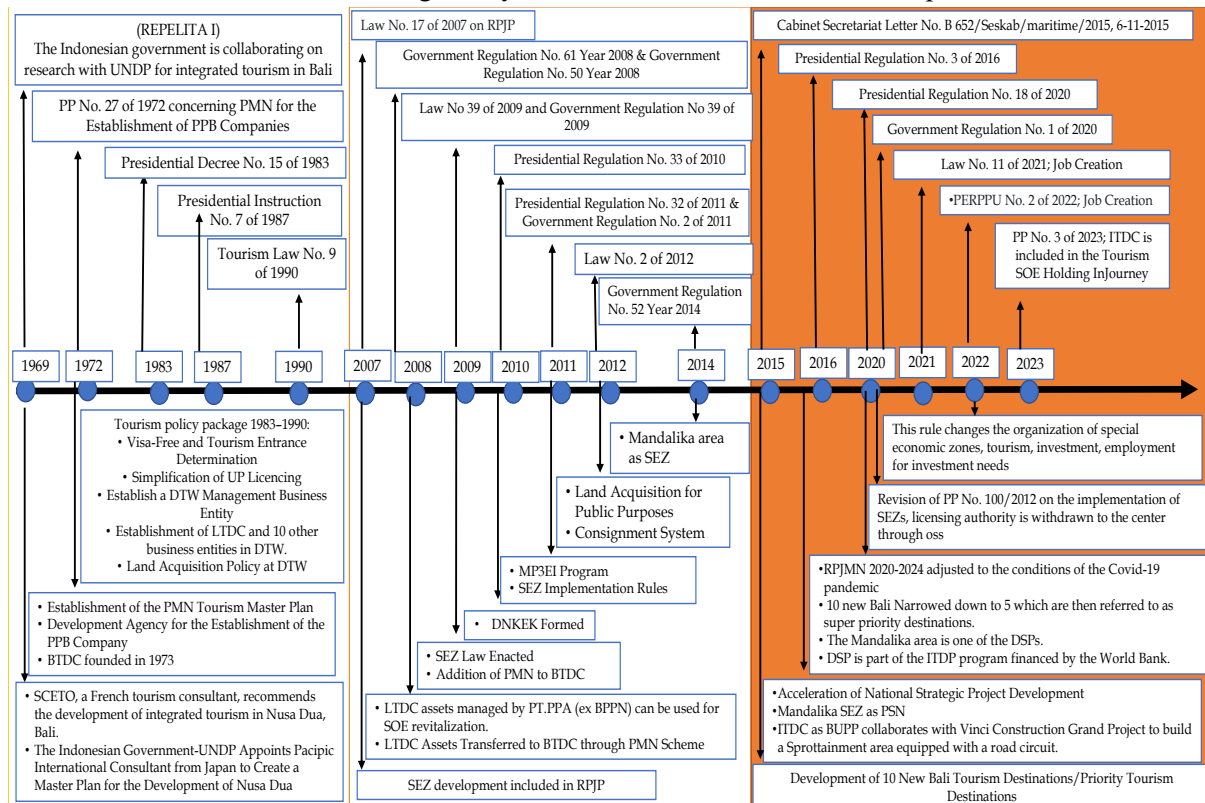
the village level, leaders of non-governmental organizations, administrators of the Mandalika SEZ as well as officials of related agencies such as the Regional Development Planning Agency for Research and Regional Development, the Tourism Office, the Office of Cooperatives and Micro, Small and Medium Enterprises of Central Lombok Regency. Secondary data has been collected to find out the regulatory trajectory of state capitalism in the tourism sector in the development of the Mandalika area through the search for legislative products, reports on the implementation of the area, documents and reports of government agencies, review of related laws and regulations, corporate cooperation documents, and publications in the mass media. The data collected is reduced, categorized and analyzed from the perspective of state capitalism theory.

### III. RESULT AND DISCUSSION

#### The Trajectory of Indonesian State Capitalism Regulation in the Tourism Sector

The trajectory of the development of state capitalism in the tourism sector cannot be separated from the history of regulatory developments that form the basis of regional development policy instrumentation. The following describes the periodization of regional development and regulatory developments in tourism governance.

Illustration of Regulatory Growth in Mandalika SEZ Development



President Suharto's administration was the initial period of introduction of the area as a tourist destination. At this stage, the development of the Mandalika area was developed in a joint enterprise development format between the central government, local government and the private sector. In this period, the area development plan covered an area of 1,250 hectares. To facilitate the development of the area, the Suharto government established the Lombok Tourism Development Corporation (LTDC) as a cooperation company involving the central government, local government and the private sector. The LTDC was tasked with land acquisition, infrastructure development and economic activities in the area. LTDC was developed with a business model as a joint venture. LTDC was formed on instruction from the central government as contained in the national tourism development policy package on the establishment of tourism companies that carry out the task of developing tourist destination areas. Based on the business model developed, the composition of LTDC's share ownership, namely PT Rajawali Wirabhakti Utama as a private party has a majority stake of 65%. While the position of the local government as the owner of the management rights is a shareholder of 35% [13]. The local government as the owner of the administrative area and the holder of

the Land Management Rights (HPL) also has the responsibility to carry out land acquisition. However, the complex conflicts created in land policy for regional development have made the Mandalika area develop sub-optimally [14]. This was exacerbated by LTDC's financial situation, which experienced a downturn and was entangled in debts of up to 1.3 trillion to banks until finally during the 1998 economic crisis LTDC's assets were taken over by the National Banking Restructuring Agency (IBRA).

The development of the Mandalika area during the administration of President Susilo Bambang Yudhoyono (SBY) was a transitional period as well as laying the foundation for the regional development format. The purpose of regional development at this time was to create an integrated tourism area as a basis for economic growth in the region. The Mandalika area was developed as one of the tourism gateways with branding as the Mandalika Resort area. At the beginning of the development of the area during President SBY's administration, Mandalika assets were under the control of PT Asset Management Company (ex IBRA). PT PPA is under the Ministry of Finance. Although in the end the management of Mandalika Assets was delegated to the Bali Tourism Development Corporation (BTDC) in the State Capital Participation scheme based on Government Regulation Number 50 of 2008. The starting point for the development of state capitalism in the development of Mandalika SEZ began after the reformation when the government established PT Perusahaan Pengelolaan Aset (PT. PPA) through Government Regulation Number 10 of 2004. President Megawati's policy aims to collect various assets that were previously under the management of the National Banking Restructuring Agency (IBRA) which were then handed over to PT PPA. However, although PT PPA is a state-owned enterprise appointed by the state to manage the assets of the former IBRA, the status of the assets managed is still under the control of the Ministry of Finance, which creates uncertainty in terms of investment. This can be seen in the case of the Mandalika area, which has difficulty finding investors because the status of the mandalika assets is still under the control of the finance department as an institution that oversees PT. PPA.

This condition was addressed by the Susilo Bambang Yudhoyono administration by issuing Government Regulation No. 61 of 2008 concerning the amendment of Government Regulation No. 10 of 2004 concerning the Establishment of Management Companies in the Field of Asset Management. The change in regulation has an impact on the role of PT PPA not only limited to asset restructuring but also can be used in the revitalization of State-Owned Enterprises (SOEs) and supporting investment needs. In line with this, the Government issued Government Regulation Number 50 of 2008 concerning the Addition of State Equity Participation of the Republic of Indonesia into the Share Capital of PT Bali Tourism Development Corporate (BTDC). In 2009, the SBY administration issued a policy on the development of Special Economic Zones. This is as stipulated in Law Number 39 of 2009 concerning Special Economic Zones (SEZs). SEZs are implemented to develop new economic growth centers based in regions that are divided into 6 economic corridors, namely the Sumatra corridor, Java corridor, Kalimantan corridor, Sulawesi corridor, Bali-Southeast Nusa Tenggara corridor and Papua-Maluku corridor. SEZ is an area prepared by the government with a number of supporting infrastructure facilities and investment facilities as a base for economic activities in industry, tourism, trade and so on. The operationalization of SEZ development policy is regulated by Presidential Decree Number 8 of 2010 concerning the National Council for Special Economic Zones (DNKEK) and Government Regulation Number 2 of 2011 concerning the Implementation of SEZs. These two regulations mark the operationalization in the development of new economic growth centers using the SEZ format. Since 2011, the Mandalika area in West Nusa Tenggara Province has been one of 66 areas from 6 economic corridors proposed to the National Council for Special Economic Zones to be designated as SEZs.

The carrying capacity of regional infrastructure, regional infrastructure and the status of land acquisition in the region are some of the main obstacles in the establishment of the Mandalika area as an SEZ. To improve the carrying capacity of regional and territorial infrastructure, the SBY administration ran the Master Plan for the Acceleration of the Expansion of Indonesian Economic Development (MP3EI) program. MP3EI projects on Lombok Island to improve the carrying capacity of the Mandalika Region are focused on accessibility infrastructure such as international airports, ports, roads and power plants. Since 2011, there have been at least 22 national strategic projects in the infrastructure sector worth 8.4 trillion

rupiah implemented on Lombok Island to improve the carrying capacity of regional infrastructure in supporting the establishment of the Mandalika Region as an SEZ. The development of regional infrastructure increases the need for land acquisition for development. This is one of the challenges that arise in development. Land acquisition policies for development often cause resistance and conflicts that hinder the development process. To respond to this problem, the SBY administration issued Law No. 2/2012 on Land Acquisition for Development in the Public Interest. The enactment of the Law, collaborated with the policy of labeling state interests through National Strategic Projects, has regulatively provided strong legitimacy for the state in negotiating land interests for development needs. Regulatory instrumentation for development needs can explicitly be seen from Article 42 of Law No. 2/2012 which regulates the deposit of compensation in court in the process of resolving conflicts over land acquisition for development.

The consignment system is one of the tactical policies implemented by the state to ensure that the development process can continue amid community resistance. Moreover, the development of national strategic projects associated with development for the public interest effectively fosters an altruistic attitude of the community to sacrifice private interests in land for the public interest. Through these regulations, conflicts in land acquisition policies are increasingly manageable so as not to hamper the development process. In the context of Mandalika Area development, the problem of conflict in land acquisition policies in the Mandalika Region that has been going on since the 1990s can be overcome by the state. This can be seen when the Mandalika area was proposed again as an SEZ in 2013, almost 95% of the land had a clean and clear status (DNKEK Year-end Report 2013). In the context of the development of Mandalika SEZ, the SBY administration contributed to several fundamental things such as regional infrastructure development, the development of a special economic zone development format and the creation of regulatory instrumentation to overcome a number of technical obstacles in developing the Mandalika area as an SEZ. The Mandalika area was designated as an SEZ during President SBY's administration through Government Regulation Number 52 of 2014. Based on the Law of the Republic of Indonesia Number 39 of 2009 and Government Regulation of the Republic of Indonesia No. 2 of 2011 requires that areas that have been designated as SEZs must be able to operate 3 years after being designated. Although it was established during President SBY's administration, the infrastructure development process of the Mandalika SEZ area began during the administration of President Joko Widodo (Jokowi). The Mandalika SEZ development policy was continued by President Jokowi as stated in the Indonesian Tourism Development National Priority Program (PPNPPI).

Based on Presidential Regulation Number 3 of 2016 concerning the Acceleration of the Implementation of National Strategic Projects, one of which aims to develop 10 new Bali tourism areas. ITDC as the Business Entity for the Development and Management of Mandalika SEZ receives support in developing the SEZ as one of the bases for new tourist areas in Indonesia. The development of Mandalika SEZ is carried out by PT ITDC as the Business Entity for Development and Management (BUPP). As a Development and Management Business Entity, ITDC has Land Management Rights (HPL) for Mandalika SEZ covering an area of 1,035 hectares. The first phase of development is planned for the development of an area of 345 hectares. In the early years of the Mandalika SEZ infrastructure development (2015). In addition, ITDC as a Tourism SOE also received full support from President Jokowi's Government to be able to develop the infrastructure of the Mandalika SEZ area. In the first phase of SEZ area development focuses on infrastructure development worth 2.2 trillion rupiah which includes road infrastructure development, electricity, employment, water resources, and international airports to increase the carrying capacity of the area. Mandalika SEZ was inaugurated in the first phase of operations on October 20, 2017 by President Jokowi. Since the opening of the first phase of development through the provision of 345 ha of land to investors and business actors Mandalika SEZ has succeeded in obtaining a number of regional land utilization cooperation. In 2017, ITDC as BUPP entered into a Land Utilization and Development Agreement with Vinci Construction Grands Project (VCGP) to develop a 131-hectare sportstainment area with an investment value of 1 billion dollars. This investment cooperation is one that attracts attention because of the planned construction of a road circuit which is projected to be one of the venues for the MotoGP international racing event.

Efforts to realize the Mandalika area as a host of international racing events continued with the signing of a collaboration between ITDC and Dorna Sport in 2019. In this collaboration, the Mandalika SEZ is projected to be the organizer of the MotoGP Event in 2021. The construction of the Mandalika Circuit, which began at the end of 2019, resurfaced the classic issue of land conflict in the region. This is because the land on which the Mandalika Circuit will be built is in the middle of a settlement of 135 families in two hamlets, namely Bunut Hamlet and Ujung Lauk Hamlet, Kuta Village. Socio-historically, the 135 families are residents who have a history of involvement in land acquisition during President Soeharto's administration in the 1990s and during President SBY's administration. The socio-historical conditions of the communities affected by the construction of the Mandalika Circuit are quite diverse, including residents reoccupying land that was acquired during the Soeharto administration, heirs who still claim land due to conflicts in land acquisition policies and local communities who also utilize land in the area as agricultural land. Land conflicts that arose during President Jokowi's administration tended to have a minor impact on physical development and investment needs in the region. The government's position during President Jokowi's administration was superior due to several conditions, first legally, the legal status of the Mandalika SEZ area has been legitimized as stipulated in Government Regulation Number 52 of 2014 where 1,035 hectares of land management rights status has been given to ITDC as a Developer and Management Business Entity. This is also reinforced by ITDC's status as a Tourism SOE which is institutionally and politically supported by the SEZ National Council as an institutional representative of the government. This legal legitimacy and political support has a considerable impact on investor confidence about the legal status of the area's land so that it does not unduly disrupt the investment climate.

Land conflicts tend not to have much impact on the process of physical infrastructure development in the region. Resistance at the local community level also does not cause significant obstacles due to the availability of policy instrumentation and regulations that legitimize the development process. The status of Mandalika SEZ as one of the national strategic projects based on Presidential Regulation No. 3/2016 has made the Mandalika circuit construction process continue despite the opposition of a number of local communities. As a National Strategic Project, the physical development of the Mandalika circuit did not experience obstacles due to the application of Article 42 of Law Number 2 of 2012 concerning Land Acquisition for Public Interest Development which regulates the system of depositing compensation in court (consignment) for parties claiming land. Technically, the application of these rules has separated land conflicts in court from obstacles to the technical process of development because construction activities can continue even though the land that is the object of the case is still ongoing in court. One of the obstacles that raised concerns about the ongoing development of the SEZ and Mandalika Circuit appeared when the covid-19 pandemic occurred in early 2020. The budget refocusing program that took place in response to the pandemic was feared to have an impact on construction development in the region. However, President Jokowi's administration responded to these conditions by issuing Presidential Regulation Number 18 of 2020 concerning the National Medium-Term Development Plan for 2020-2024. In the Presidential Regulation, the 10 New Bali Development Program was changed to the development of 5 New Bali called Super Priority Destinations.

The Mandalika area is one of the Super Priority Destinations whose development implementation is guaranteed by the government to continue to receive budget support during the pandemic, the guarantee from the government is inseparable from financial support from the World Bank which provides funding facilities in the Indonesia Tourism Development Project (ITDP) program worth 10 trillion rupiah. President Jokowi's administration has driven a new chapter in the development of Indonesia's state capitalism in the tourism sector. This can be seen from the birth of Law Number 11 of 2020 concerning Job Creation. Through this regulation, the governance and operationalization of SEZ development and management are re-coherent with the needs of investment and employment provision. The importance of the Job Creation Law can also be seen from the long dynamics of the regulation. After its publication, the Job Creation Law received a number of criticisms and rejections. The peak of this resistance was when the Job Creation law was declared conditionally unconstitutional based on the Constitutional Court Decision Number 91/PUU-XVIII/2020. The Constitutional Court's decision to declare the Job Creation Law conditionally unconstitutional was responded

to by President Jokowi's administration by issuing Government Regulation in Lieu of Law Number 2 of 2022 on Job Creation. The government step was taken by considering the urgency of economic conditions in the context of restoring the national economy due to pandemic conditions. The government considers it necessary to take strategic steps in an effort to attract investment to maintain the momentum of national economic growth and the need for job absorption. In May 2023, the Indonesian House of Representatives approved the stipulation of the PERPU on Job Creation into Law Number 6 of 2023 on the Stipulation of Government Regulation in Lieu of Law Number 2 of 2022 on Job Creation into Law.

The long dynamics of the government's "struggle" in maintaining the Job Creation Law in the context of SEZ development and management at least indicates that the Job Creation Law is an important regulatory instrumentation base in sustaining Indonesia's Developmental State Capitalism in the tourism sector. Through the Job Creation Law, the government can rationalize development and investment needs in various regulatory aspects that offer administrative convenience, minimize technical barriers to development, and provide economic incentives and inducements to attract investors to support economic and development circularity.

Table of Development Characteristics of Mandalika Area

Important Aspects	Sowharjo's Government	Development Characteristics of the Mandalika Area	Jokowi Administration
<b>Regional Policy Mandalika</b>	<ul style="list-style-type: none"> <li>Since 1984-1989 Lombok was designated as a Tourist Destination Area which focused on Putri Nyale Beach, Senggigi, Gali Air, Sire Beach and Rembitan.</li> <li>In 1990, ITDC was formed. PT Lombok Tourism Development was given responsibility in managing the area, especially especially related to land acquisition.</li> </ul>	<ul style="list-style-type: none"> <li>Since 2011, the Mandalika area has been one of the areas being considered to be designated as an SEZ.</li> <li>The Mandalika area is one of the tourism gateways in the Bali Nusa Tenggara economic corridor. Bali Nusa Tenggara economic corridor.</li> <li>The main infrastructure development as stipulated in MP3EL is to prepare the carrying capacity of Mandalika SEZ.</li> </ul>	<ul style="list-style-type: none"> <li>Since 2016 Lombok has been included in the National Priority Program for Tourism Development Program (PPN/PPP) which is designated as one of the 10 new Bali, one of the 10 new Bali. Period 2015-2017: physical infrastructure development area</li> <li>2017-2022 phase 1 operational phase, development of the sportainment area</li> <li>Implementation of international walk and motogy events.</li> </ul>
<b>Regulation</b>	<ul style="list-style-type: none"> <li>Presidential Decree No. 15 of 1983 About Development Policy tourism</li> <li>Presidential Instruction No. 7 of 1987 Simplification of Licensing and Retribution Tourism Business</li> <li>Law Number 9 of 1990 About Tourism</li> </ul>	<ul style="list-style-type: none"> <li>Government Regulation No. 61 of 2008 on the amendment of Government Regulation No. 10 of 2004 on the Establishment of PPA to replace IBRA.</li> <li>Establishment of PPA to replace IBRA which was dissolved based on Presidential Decree No. 15 of 2004 of President Megawati.</li> <li>15 year 2004 in the era of President Megawati. One of the important points is that PPA assets can be used for the revitalization of SOEs.</li> <li>PP No 50 of 2008 Mandalika assets managed by PPA were handed over to PT BTDC in the form of State Equity Participation.</li> <li>PP No. 33 of 2009 (amendment to PP No. 50 of 2008) and the provision of grants for BTDC and incentives for the local government.</li> <li>BTDC and incentives for Loteng district government.</li> <li>Law No. 17 of 2007 on the National Long-Term Development Plan.</li> <li>Law No. 25/2007 on Investment to support investment needs in growing the economy in the economic corridor.</li> <li>in growing the economy in economic corridors and SEZs.</li> <li>Law No. 39 of 2009 on SEZs.</li> <li>Presidential Regulation No. 33 of 2010 on DNKEK.</li> <li>Presidential Regulation No. 32 of 2011 on MP3EL As a derivative regulation of Law no 17 year 2007 on RPPFN.</li> <li>Government Regulation No. 2 of 2011 on the Implementation of SEZs.</li> <li>Law No. 2 of 2012 on Land Acquisition for Development in the Public Interest.</li> <li>Public Interest. This instrument has an impact in overcoming land acquisition issues especially related to the consignment system in article 42.</li> <li>Government Regulation No. 52 of 2014 on the Establishment of Mandalika SEZ</li> </ul>	<ul style="list-style-type: none"> <li>Presidential Regulation No. 3/2016 on Acceleration of National Strategic Project Implementation.</li> <li>Presidential Regulation Number 18 of 2020 concerning National Medium-Term Development Plan 2020-2024. Mandalika SEZ as a Super Priority Destination Super Priority Destination.</li> <li>Government Regulation Number 1 of 2020 concerning amendment to Government Regulation Number 100 Year 2012 which regulates the implementation of SEZs.</li> <li>Job Creation Law Number 11 of 2021 On Job Creation</li> <li>Perpu No. 2 of 2022 on Job Creation</li> </ul>
<b>Branding Destination</b>	Putri Nyale Beach	Mandalika Resort Area	Mandalika SEZ Super Priority Destination
<b>Role of Government Central and Regional</b>	<ul style="list-style-type: none"> <li>Centralized Policy.</li> <li>Regions are encouraged to establish BUMDs</li> <li>Regions are burdened with the responsibility of land acquisition of 1250 ha</li> <li>Regions cooperate with private parties private sector appointed by the central government center.</li> <li>The tourism area is managed by a Joint Venture that is determined by the central government determined by the central government, namely the private sector as the holder of 65% majority shareholder and the local government as the Management Right Owner holding 35% shares.</li> </ul>	<ul style="list-style-type: none"> <li>Macro policy is determined by the center through the SEZ National Council while the local government is supporting.</li> <li>Provincial Government as the Regional Council.</li> <li>Regency Government as administrator.</li> <li>The area is managed by the Development and Management Business Entity.</li> <li>Business activities are regulated by BU/PP as a business to business basis.</li> </ul>	<ul style="list-style-type: none"> <li>The center plays a role in providing development infrastructure and full support for events.</li> <li>Local governments provide support for technical constraints in (land issues, local community demands, etc.)</li> <li>Local government facilitates the needs of BU/PP</li> <li>ITDC as BU/PP</li> </ul>
<b>Achievements Development</b>	The construction of the Novotel Hotel on Putri Nyale Beach	<ul style="list-style-type: none"> <li>Development of Main Infrastructure Supporting SEZs (22 Project Items such as Airports, roads, ports and power plants)</li> <li>Institutional achievement in the form of regulation: Law No. 39 of 2009 on SEZs</li> <li>Presidential Decree No. 32 of 2011 on MP3EL overcoming the obstacles of lack of supporting infrastructure of the region</li> <li>UU No2 Year 2012 on Land Acquisition for Development in the Public Interest, article 42 related to land acquisition for development in the public interest.</li> <li>Public Interest, article 42 related to the deposit of money in court provides certainty in the physical development of the area.</li> <li>certainty in the physical development of the area.</li> <li>Government Regulation No. 52/2014 on the establishment of Mandalika SEZ.</li> </ul>	<ul style="list-style-type: none"> <li>Operational Phase 1 of Mandalika SEZ with completion of the sportainment area of 131 ha, one of which is through the construction of Mandalika circuit which has carried out the races WSBK 2021, MotoGP 2022 and WSBK 2022.</li> </ul>

**The Role of State Capitalism in the Tourism Sector: Opportunities and Challenges**

The active role of the state in building the power of state capitalism in the development of the Mandalika area can be seen from several aspects which include the creation of a policy framework, the provision of regulatory instruments, the provision of infrastructure as well as the main driver of economic activity in the region. The main policy framework that regulates the development mechanism can be seen in the Special Economic Zone format where the management of SEZs has been delegated by the state to ITDC as the Mandalika Area Development and Management Business Entity (BU/PP). The management of Mandalika SEZ by ITDC as a State-Owned Enterprise is strategically able to articulate the interests of the state in supporting economic growth based on economic growth and investment. ITDC as a state-owned enterprise engaged in tourism has a role to bridge the needs of state corporations through the involvement of state-owned enterprises (SOEs), market actors, and community needs. This process clearly has an impact on the state's ability to accumulate economic networks through BUMNs and market actors through development projects and economic activities carried out and accommodate community interests through the provision of employment. In supporting development goals within the framework of state capitalism, regulatory support is very important. This can be seen from the number of regulations born to support the operation of SEZs to



adjustments governing development incentives. Since the SEZ law was created in 2009, dozens of derivative regulations governing technical development have been presented. Currently, dozens of regulations have also been rationalized in a new regulation, namely the Job Creation Law which has been amended into a Government Regulation in Lieu of the Job Creation Law.

The track record in the long periodization of regulations in the transition of several eras of government has made the development of Mandalika SEZ one of the full practices of state capitalism. The role of the state in state capitalism is also seen in the provision of infrastructure, both regional infrastructure and regional infrastructure. The provision of infrastructure has both political and economic functions. Politically, the provision of infrastructure is a reflection of the operation of the state's institutional apparatus through the implementation of development projects. The provision of infrastructure is a legacy that shows the work of the government from the central level to the regional level. On the other hand, economically, the provision of infrastructure is directly related to the provision of carrying capacity in regional economic activities. Infrastructure in special economic zones is the main prerequisite in supporting the geostrategic and geoeconomic advantages of the region. In the operational activities of the Mandalika SEZ, the state has practiced developmental state capitalism. This practice has succeeded in encouraging regional infrastructure development not limited to the purpose of absorbing investment but also mobilizing sectors of State Enterprises in various sectors such as construction, financing and financing guarantees, and Tourism SOEs. For example, in the Mandalika Region infrastructure development project through the Mandalika Urban Tourism Infrastructure Project (MUTIP), the government through ITDC as a Tourism SOE managed to obtain an investment of 341 million dollars from the Asian Infrastructure Investment Bank (AIIB).

Investment in the MUTIP Project not only supports the performance of ITDC as a Tourism SOE in providing complete regional infrastructure. Furthermore, through the Developmental State Capitalism approach, it has also succeeded in encouraging the involvement of various SOEs in various sectors. In the construction sector, for example, the MUTIP project phase 1 was carried out by the Consortium of Housing Development Limited Company together with PT Wijaya Karya with a project value of 940 billion rupiah. Meanwhile, the second phase of the MUTIP project was carried out by BUMN Karya with a project value of 900 billion rupees. This project also opens up opportunities for the involvement of other SOEs such as PT Penjaminan Infrastruktur Indonesia as a loan guarantor in the MUTIP project. This means that through this approach the government has succeeded in building an economic circularity through the involvement of SOEs in the strategic sector. Developmental state capitalism is considered important in supporting economic growth. Especially when viewed from the derivative benefits in terms of employment absorption, increased income and efforts to reduce unemployment through the availability of jobs in the construction sector and its supporting sectors. This approach is applied in various schemes such as the construction of the Mandalika Circuit to the implementation of WSBK and MotoGP Events where the state mobilizes the utilization of a number of BUMNs to achieve economic growth objectives.

The State Capitalism approach in the tourism sector can also be seen from state support in the development of the Mandalika SEZ area during the pandemic through the National Economic Recovery Program (PEN). Based on Government Regulation of the Republic of Indonesia Number 64 of 2020, the government provided additional State Capital Participation (PMN) to ITDC as the BUMN builder and manager of Mandalika SEZ amounting to Rp.500,000,000,000. The addition of PMN to ITDC is part of the National Economic Recovery policy regulated through Presidential Regulation Number 72 of 2020. Through the PEN Program, the government through the Ministry of Finance allocates 152.75 trillion to SOEs in the form of subsidies, compensation, state equity participation, working capital bailouts, and social assistance to 12 priority SOEs including ITDC. The provision of additional PMN to 8 BUMNs in the PEN Program reached a total of 25.27 trillion rupiah. PMN support to ITDC in the development of the Mandalika area is a direct stimulus obtained through ITDC as a Development and Management Business Entity. These various supports do not include fiscal support that enters through ministerial agencies involved in the development of regional infrastructure and infrastructure for the Mandalika area.

Another role of the state in state capitalism can be seen from the state's ability to build economic networks in supporting the accumulation of state corporate capital. The economic network in the business

ecosystem built through the SEZ format can be seen in two forms. First, economic networks across industrial sectors built from 20 Economic Zones that have been built in Indonesia. Second, the economic network in the tourism sector business ecosystem built from 10 Special Economic Zones engaged in the main tourism business sector. Through the Special Economic Zone Development Policy, the Government is not only developing the economic sector in the regions but also strengthening the accumulation of state corporations through BUMN, investors and market players at the same time. The economic network can be seen from several business actors involved in the area. Until 2022 the Mandalika area, which is included in one of the SEZs with optimal development status, has received a total investment of 2.2 trillion rupiah. The amount of investment in the development of the area only includes investment by business actors, not including investments made by the government in the development of regional infrastructure and regional infrastructure.

State Capitalism practiced in the operationalization of Mandalika SEZ does not only collect investment from the side of business actors in the region. Beyond that, regional and regional infrastructure development is also obtained from the support of the State Budget allocated to Ministries and State Institutions through a number of programs. In addition, regional development also involves investment support from international investment sources. For example, the World Bank helped develop infrastructure supporting the Mandalika SEZ in the Indonesian Tourism Development Program (ITDP). The Mandalika area also received support from the Asian Infrastructure Investment Bank (AIIB) in a financing facility of 3.6 trillion rupiah for the Mandalika Urban and Tourism Infrastructure Project (MUTIP) Program and export financing from the Indonesian Export Financing Agency (LPEI) in the National Interest Account (NIA) scheme of 1.18 trillion. While in the business sector, the largest ITDC has ensured cooperation with Vinci Constructions Grand Project (VCGP) worth 15.5 trillion rupiah. From this side, the state capitalism approach applied by the state has been able to absorb investment to develop the tourism sector in the Mandalika Region. Government support in the development of the Mandalika SEZ ensures that it receives all the necessary assistance. The state shows its ability to mobilize its resources. Mandalika SEZ shows that the state has an accumulative role in building an economic network based on state corporate control (through BUMN) both in facilitating economic actors in the region as well as through the provision of development projects in the public sector. The mobilization of state support in supporting state capitalism played by BUMN can also be seen from policy support in the form of incentives. The massive support obtained in the development of Super Priority Destinations in the KEK Mandalika area is aimed at the successful organization of the World Super Bike Championship and MotoGP international racing championships which will take place in 2021.

The Indonesian government through the Directorate General of State Assets (DJKN) of the Ministry of Finance details that in order to support the implementation of the 2022 MotoGP Racing Event the government has allocated state budget funds of up to 2.49 trillion rupiah. The amount consists of 1.3 trillion rupiah for land acquisition and construction of basic circuit infrastructure, budget allocations through ministries and institutions of 1.18 trillion rupiah and the provision of customs facilities, taxation of capital materials for regional development amounting to 17.75 billion rupiah. State support in realizing the strengthening of state corporations is not only seen from fiscal induction support. In various policies and regulations, the government also provides various facilities intended as a stimulus for business actors. This is as stipulated in Government Regulation in Lieu of Law Number 2 of 2022, the second part of article 150 of the Special Economic Zone, which regulates several changes and stipulations such as the provision of income tax facilities in article 30, article 32 related to the import of goods in SEZs to obtain exemption and suspension of import duties, excise exemption as long as the goods are raw materials or production auxiliary materials, free value added tax, free import income tax, as well as various facilities related to customs and ease of licensing. Through the state capitalism approach, the state has been able to encourage the involvement of SOEs in the development of the Mandalika area. The state through a number of regulations, policies, programs and interventions has also succeeded in encouraging the development of regional development both in terms of infrastructure provision and the implementation of various international events in the Mandalika area. The trend of economic growth and the development of business activities in the region is an

opportunity not only for ITDC as the BUMN builder and manager of the area. Furthermore, the progress of the Mandalika area is also an opportunity to revive economic growth at the local level. The availability of a number of regional and regional infrastructure and the holding of various events in the Mandalika area are opportunities for local governments and local communities in increasing opportunities for benefits.

The developmental state capitalism approach in the Mandalika area at a macro level has encouraged the construction sector to experience significant growth in regional economic growth. However, if we look at the micro impact in the community, especially in relation to local labor absorption and wage turnover at the local worker level, it is still not optimal. The Public Works and Spatial Planning Office of West Nusa Tenggara Province revealed that the wage money generated from the construction activities of infrastructure development projects actually flows out of the region. This is partly due to the limited number of local workers with expert and skilled labor qualifications. Moreover, when viewed from the percentage of the working population according to the level of education in West Nusa Tenggara, the majority is still dominated by workers with a junior high school education level and below, reaching 59.54% (Employment Profile Data Prov. NTB 2022). This condition is one of the causes of not optimizing the absorption of employment for local communities. The challenge of optimizing benefits for local communities can also be seen in the implementation of international events at the Mandalika circuit. At the MotoGP event at the 2022 Mandalika Circuit, the Government of Indonesia through the Ministry of Tourism and Creative Economy in collaboration with the Institute for Development of Economics and Finance (INDEF) released the economic benefits of the Mandalika MotoGP event of 5.1 trillion rupiah, while the Mandalika Grand Prix Association (MGPA) released an event economic impact of 4.5 trillion (themandalikago release dated 11 August 2022). Although the central government claims that at the macro level the implementation of the WSBK and MotoGP Events has a positive impact on economic growth, at the local level it shows the opposite reality.

This can be seen, for example, from the unachievement of the target of local revenue derived from tax revenues and levies from organizing events. At the Central Lombok Regency scale, the economic impact of the Mandalika 2022 MotoGP event contributed taxes of Rp. 12,422,508,320. This amount was obtained from ticket sales tax of Rp. 11,685,491,320, catering tax of Rp. 540,000,000, billboard tax of Rp. 174,000,000 and parking tax of Rp. 23,017,000. this amount is considered still far from the target set previously. One sector that is expected to expand economic benefits in organizing events is micro, small and medium enterprises (MSMEs). Based on data from the Office of Cooperatives and Micro, Small and Medium Enterprises of Central Lombok Regency, there are 20,011 MSMEs. The majority of these are ultra-micro businesses with capital amounts below Rp.10,000,000. Meanwhile, in Pujut District, which is the sub-district where Mandalika SEZ will operate in 2022, there are 1,641 MSMEs. To be able to optimize the development of the tourism sector in order to obtain a multiplier effect, it needs to be supported by the availability of an economic network as a provider of supply chains supporting the tourism sector. One of them can rely on the Micro, Small and Medium Enterprises (MSMEs) sector. Condition of MSMEs in Central Lombok. The main problems faced by the MSME sector are the low competitiveness of the quality and quantity of MSME products and the low coverage of access to capital for MSMEs from both banking and non-banking sources. In addition, the cooperative sector has not run optimally due to the low quality of cooperative management and the lack of optimal facilitation for cooperatives in accessing capital (Source: Central Lombok Government Agency Performance Report 2021).

#### **IV. CONCLUSION**

The development trajectory of the Mandalika area in three eras of government shows the dominant practice of state capitalism played by BUMN in the tourism sector. The characteristics of developmental state capitalism carried out in the development of Mandalika SEZ are supported by policies, programs, regulatory growth and the development of infrastructure development across government eras that lead to strengthening the market economy ecosystem that goes hand in hand with strengthening state capitalism. In supporting developmental state capitalism in the tourism sector, the Mandalika area is supported by several BUMNs in strategic sectors including the construction sector, BUMN financing and corporate guarantees and BUMN Tourism. The development of state capitalism in the tourism sector goes hand in hand with the

development of the tourism economy as one of the sectors that support Indonesia's economic growth. The operationalization of SOEs in supporting tourism economic growth needs to be done in tandem with economic strengthening at the local level. The intervention of state capitalism practiced by the state needs to intervene in the microeconomic sector at the local level to maintain the momentum of macro tourism economic growth with economic benefits at the local level, especially in the micro, small and medium enterprise sector.

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