



## ABSTRACT

In terms of increasing the competitive advantage of Indonesia especially with the neighboring country, the Government issued Law no. 44/2007 about Free Trade Zone and Free Port and Government Regulation No. 46/2007 regarding Batam Free Trade Zone and Free Port.

The government issued this law as an action to increase investment, to promote export, and to create jobs. It was also supported by the Economic Cooperation between Singapore – Indonesia that was signed on June 25, 2006. The cooperation expected that Bintan Batam Karimun on June 2009 can doubled the export from 2005 figures, attract foreign direct investment around 1 Billion USD, and create 130.000 jobs.

The purpose of this research is to evaluate the policy and give recommendation in order to further develop the Batam Free Trade Zone and Free Port. Thus, the policy can be implemented and can give optimal benefit to the people.

The SWOT analysis shows that Batam Free Trade Zone and Free Port can be implemented better if it is in the form of cluster not the whole Batam Island. Industrial cluster can make the development more focus and can reduce the possibility of smuggler activity. In this research, Kabil area is recommended to be further developed considering its big potential for further development.

**Keywords:** zone, free trade zone, industrial cluster, free trade, economic cooperation, SWOT analysis.