

SDG alignment in SEZs: A place-based perspective from national regulatory design to local practice in the Mandalika tourism SEZ, Indonesia

Introduction

Special Economic Zones (SEZs) have become one of the most widely used policy instruments for promoting economic development and attracting investment, with the number of zones currently exceeding 7,000 globally (UNCTAD, 2022; Zeng, 2021). A persistent concern in the literature is their tendency to function as enclaves, spatially and institutionally disconnected from the surrounding economies and communities, producing limited benefits beyond the zone (Farole, 2011; Frick et al., 2019; Moberg, 2015). Growing literature argues that SEZs do not operate in a void; performance depends on how zones are embedded in host region governance arrangements, local economies and social environment (Frick & Rodríguez-Pose, 2023; McCann & Rodríguez-Pose, 2011).

This debate is policy-relevant under the SDG agenda. SEZs are expected not only to attract investment but also to support more inclusive, territorially integrated development, in relation to SDG 8 (decent work and economic growth) and SDG 11 (sustainable cities and communities) (UN General Assembly, 2015). The key issue in SDG alignment for SEZs is whether sustainable development objectives are pursued in policy design and translated into locally embedded implementation practices.

Although most literature focuses on industrial or export-oriented SEZs, tourism SEZs provide a meaningful analytical context due to tourism's place-dependent characteristics: it relies on destination accessibility, place qualities, service ecosystems, and social legitimacy with local communities. Moreover, tourism governance is multi-actor and cross-sectoral, involving land use, transport, labour, and local services, and coordinated through mixed governance modes (Bramwell & Lane, 2011; Hall, 2011).

This paper examines conditions for SEZ-SDG alignment through a two-level study of Indonesia's SEZ governance, connecting national regulatory design and local implementation in Mandalika Tourism SEZ. Indonesia provides an illustrative case because of the combination of strong national steering and decentralised governance, and its SEZ policy explicitly includes non-industrial sectors such as tourism. Mandalika is a leading tourism SEZ and a national strategic tourism destination in Indonesia (AIIB, 2018), making it relevant for clarifying how national SEZ policy is translated into local practice. Specifically, the paper asks how national regulatory frameworks and local governance practices shape conditions for SDG alignment in tourism SEZs, using enclave-embeddedness as an analytical lens operationalised across three dimensions: policy alignment, institutional relations, and spatial-economic linkages. It contributes to the SEZ-SDG agenda by showing that SDG-relevant development depends on how SEZs are embedded in policy design and implementation practices, and how embeddedness is enacted across multiple dimensions and governance levels, which is often uneven, temporal, and contested in meaning.

Analytical approach and methodology

The study combines SEZ debates as enclave or embedded development trajectories with a place-based lens. Early SEZ literature emphasises exceptional regulatory spaces for investment attraction, exports, and competitiveness, which generate growth while weakly integrated with domestic development processes (Farole, 2011; Phelps, 2007). More recent scholarship argues that SEZ performance depends on the embeddedness of the zone, i.e., the extent to which the zone is connected to surrounding economies and institutions through local linkages, coordination, and long-term structural transformation (Farole & Akinci, 2011; Li et al., 2023; Phelps et al., 2015).

A place-based development approach aligns with the perspective that policy performance is shaped by local institutional capacity, multi-level governance arrangements, and geographical conditions; therefore, policy instruments should align with local context rather than spatially neutral templates (Barca et al., 2012; McCann & Rodriguez-Pose, 2011). This is relevant for tourism SEZs. Tourism is place-dependent and destination-wide, relying on accessibility, landscapes, and service ecosystem, and governed through multi-actor arrangements combining hierarchical, market, network, and community coordination (Bramwell & Lane, 2011; Hall, 2011). Therefore, tourism SEZs provide a useful context for assessing how the exceptionalism of SEZs interacts with place-based principles.

This study operationalises embeddedness as multidimensional across three dimensions: policy alignment (coherence of objectives and instruments across sectors and levels), institutional relationships (coordination, roles and responsibilities among different SEZ-related actors), and spatial-economic linkages (accessibility, infrastructure networks, spatial governance, and functional connectivity with surrounding areas). This is crucial for SDG (particularly SDG 8 and SDG 11), because SDG alignment may be strong in one dimension (e.g. connectivity, employment) while unstable in another (local inclusion, spatial governance) (UN General Assembly, 2015; UNCTAD, 2019).

Methodologically, the study uses a two-level qualitative design to capture both formal policy design and practical governance arrangements. At the national level, it analyses Indonesia's regulatory framework (laws, implementing regulations, planning/ spatial instruments) to assess how objectives, incentives, institutions, and spatial arrangements are designed. This can indicate whether the SEZ frameworks operated as enclaves or provided room for locally embedded development practices.

At the local level, the paper assesses Mandalika Tourism SEZ through document review, semi-structured interviews, Q-methodology, and field observations during fieldwork conducted in July-August 2025. Interviews were conducted with stakeholders related to SEZ, including national, provincial, and municipal government actors, SEZ operators, businesses within the zone, and community representatives. The Q-method is further used to identify stakeholder viewpoints on the meaning and priorities of SEZ embeddedness. This combined approach captures formal arrangements and their translation in practice, and how they shape the conditions for SDG alignment.

Results

National-level analysis shows that the regulatory framework shapes SEZ trajectories by defining institutional and spatial conditions for zone operation. The SEZ framework in Indonesia functions as an adaptive regulatory umbrella, preserving core SEZ features (i.e. exceptional treatment, central steering) while providing room for context-sensitive implementation. Indonesia's SEZ objectives include investment attraction, competitiveness, and economic growth, as well as a dynamic objective of regional disparities reduction. While the incentive structure remains standardised and fiscal provisions focused, institutional and spatial arrangements open pathways towards embeddedness, particularly through acknowledgement of subnational governments' roles and requirements for compliance with spatial planning instruments. Therefore, the framework enables SDG-aligned development, but the outcomes depend on the local implementation.

The Mandalika case shows how this adaptive framework is translated into practice, and how enclave and embeddedness logics coexist unevenly across dimensions. In the *policy alignment*, Mandalika is anchored in national and sectoral tourism priorities, resulting in strategic positioning and policy narratives and strong national support. However, alignment is more conditional at the subnational level; support for tourism development does not automatically translate into consistent support for SEZ as a governance instrument. This gap matters for SDG alignment, for whether local regulations and commitments can extend SEZ benefits beyond the zone.

Institutional relations show the coexistence of enclaves and embedded logics. SEZ regulations establish a bounded zone, a dedicated operator, and differentiated responsibilities inside and outside the zone, reflecting enclave features. However, institutional design includes subnational representation in formal structure and mechanisms for multi-level coordination. In practice, coordination is asymmetric: coordination with national institutions is stable and frequent, while coordination with subnational governments is more episodic, reactive, and event-driven. Contrastingly, coordination is more consistent at the operational-local level (e.g., neighbouring villages, SMEs, tenants), where cooperation is pragmatic and day-to-day problem-solving is necessary. The asymmetry shapes who benefited from tourism (SDG 8) and how local and social inclusion are managed (SDG 11).

Spatial-economic linkages in Mandalika are strong in functional terms but contested in spatial governance terms. The zone boundary is relatively porous, and tourism depends on flows of people, goods, and services across it. Findings indicate functional connectivity through accessibility, infrastructure networks, local labour absorption, SME participation and local sourcing. However, spatial governance shows more tension, where boundary-based responsibility, overlapping planning regulations coverage, and land-tenure complexities lead to fragmented authority and coordination burdens. Therefore, SDG 8 outcomes benefit from functional connectivity, but spatial governance tensions may undermine SDG 11.

Actor perspective. Q-method results indicate shared rejection of enclave-oriented development among participants, but no agreement on the meaning of embeddedness. One viewpoint prioritises spatial-economic integration, i.e. connectivity, regional linkages

and practical functionality, while another prioritises institutional coordination, planning conformity, and local inclusion. These differences help explain why embeddedness remains uneven in practice: actors may agree on more embeddedness while pursuing different embedding pathways.

Temporality. The findings indicate a temporal dimension of embeddedness. Major events in Mandalika create temporary embeddedness by accelerating infrastructure and intensifying cross-sectoral coordination. While their effects on accessibility and physical connectivity are sustained, the institutional coordination remains episodic and weakens outside event periods. Therefore, events may accelerate embedding but not producing sustained governance routines.

Discussion and conclusion: implications for SEZ-SDG alignment

The findings indicate that SDG alignment in SEZs cannot be inferred only from formal objectives. It depends on how embeddedness is enacted across policy, institutional and spatial-economic dimensions, and on their interactions across governance levels. The Mandalika case offers several contributions to SEZ-SDG debates. First, embeddedness is multidimensional. Alignment in some dimensions is stronger (e.g., national/sectoral policy alignment, functional connectivity), but weaker in others (e.g., subnational coordination, spatial governance), producing uneven conditions for SDG-aligned development. Second, embeddedness is often contested in meaning. Shared rejection of isolated enclave model can coexist with disagreement over priorities: some actors emphasise functional spatial-economic connectivity, while others prioritise institutional and social inclusion. These differences in priority shape forms of inclusion, growth and integration in practice. Third, embeddedness is temporal. Event-led development can accelerate physical connectivity and institutional coordination, but may lead to episodic coordination if not institutionalised within governance routines. This dimension is particularly relevant in tourism SEZs, which are affected by event cycles and destination-promotion pressures.

Finally, the paper suggests that assessing SEZs through SDG lens may benefit from a place-based, multi-scalar perspective linking formal policy design to local governance practice. In the context of tourism SEZs in decentralised developing countries, SDG-aligned outcomes are more likely if SEZs are treated as embedded multidimensional governance projects across scales, actors and time. This needs a formal SEZ design with sustainable development objectives, which translates into sustained governance coordination, institutional arrangements, and spatial mechanisms.

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