

## New Direction for Sulawesi Regional Development<sup>1</sup>

MATSUI Kazuhisa

*JICA Expert in Makassar, Policy Advisor for Sulawesi Regional Development*

### Abstract

It is not until completion of the Trans-Sulawesi Road that Sulawesi Island had lacked its sense of unity as one region with its geographic reason. Gradually growing sense of unity is used by six provincial governments to strengthen their bargaining power to central government. Now, six provinces in Sulawesi apply the commodity-based development strategies as declaring that Sulawesi wants to be the foodstuff production center to make contribution for national economy. However, there are many crucial issues on regional development in Sulawesi including impact of decentralization and democratization, inter-regional growth gap, transition process from agricultural development to industrialization, and environmental conservation. The ToT way should be the key approach in every aspect in Sulawesi regional development such as human resource development, capacity development, and training for agricultural industrialization. As one of the most important biodiversity centers in the world, Sulawesi has its own right to take initiative to create "new development model" which is different from other model with coexistence and synergy between economic development and environmental conservation for truly sustainable development.

### 1. INTRODUCTION: SULAWESI AS ONE REGION?

Sulawesi Island has its very unique shape as like as the character of 'K'. Since before, because of its geographic condition, Sulawesi had lacked its sense of unity as one region. Northern part of Sulawesi has traditional closed connection to Southern Philippines and North Maluku. Western part of Sulawesi had connected to Eastern Kalimantan over the Makassar Strait. Eastern part of Sulawesi has traditional relationship to Maluku islands. And southern part of Sulawesi had economic and social relationship to Nusa Tenggara islands until northern part of Australia. Sulawesi had not been regarded as a unitary region to share its destiny each other.

The completion of the Trans-Sulawesi Road from Makassar to Manado in 1980's made such images and situation start to change, even though its separation character has not been so dramatically changed. Today, for example, potatoes from the Modinding highland village in North Sulawesi are very popular at the traditional vegetable market in Makassar, South Sulawesi. There are many long-distance bus routes using the Trans-Sulawesi Road as Makassar-Manado, Makassar-Palu, Makassar-Poso, Toraja-Palu, and others. Through such interactions, Sulawesi has been slowly recognized itself as like as one region.

In September 2000, four provincial governors in Sulawesi (notice: currently six provinces) declared to establish the Sulawesi Regional Development Cooperation Board (*Badan Kerjasama Pembangunan Regional Sulawesi: BKPRS*) to boost inter-regional cooperation in Sulawesi. *BKPRS* was the first organization for inter-regional cooperation in Indonesia at that time, followed by similar movement in Sumatra, Kalimantan and Java-Bali. However, it is not so easy work for Sulawesi to promote inter-regional development cooperation because there are many conflicts of interests among provincial/local governments based on the introduction of decentralization and direct election of local head since 2005 after the first direct presidential election in 2004. Under this situation, *BKPRS* is also not so well functioned as expected.

On the other hand, the sense of unity as 'one region Sulawesi' is now strategically used by six provincial governments to strengthen their bargaining power to central government to get more fund allocation and prioritized attention for development matters. Inter-regional cooperation is also seen mainly at local government level to exchange and learn each other.

In this regards, we are now able to consider development strategy of Sulawesi as one region. This paper tries to review current development efforts and issues to propose new direction for Sulawesi regional development in the future.

### 2. CURRENT DEVELOPMENT EFFORTS IN SULAWESI

#### 2.1 Sulawesi in the context of 'East Area of Indonesia' (*KTI*)

Indonesia had used the term 'East Area of Indonesia' (*Kawasan Timur Indonesia: KTI*) since 1993 when the *KTI* Development Council (*Dewan Pengembangan KTI*) was established to boost development of the underdeveloped area under high priority of Indonesian development strategy. *KTI* included Kalimantan, Sulawesi, Nusa Tenggara, Maluku and Papua. In the context of *KTI* development, Sulawesi was positioned as the gateway and prime mover to give positive development impact to other areas in *KTI*. Sulawesi became

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the centered member of *KTI* to present its aspiration to central government.

However, the term of *KTI* will not be popular in the next National Mid-term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional: RPJMN*) 2009-2014 under the second Yudhoyono government. New Government of Indonesia (GoI) will try to apply main-island-based regional development approach as Sumatra, Java-Bali, Kalimantan, Sulawesi, Maluku, Nusa Tenggara, and Papua, instead of using dichotomized and sometimes politicized term of *KTI*. In this approach, *RPJMN* imagines the development impact diffusion from Java-Bali to Sulawesi, Sulawesi to Maluku and to Papua. The basic concept that puts Sulawesi as prime mover for other regions will not change.

## 2.2 High Growth Rate in Sulawesi

Sulawesi is still regarded as backward and poorer area in Indonesia. It is true in regional income and other economic indicators compared with Java. The share of Sulawesi in GRDP is around 4% and it had not changed since before. However, it is Sulawesi that recorded highest growth in Indonesia for last ten years.

As seen in Table 1, in average annual GRDP growth rate in 1999-2003, Sulawesi was 4.1% and over Java (4.0%) and Sumatra (3.0%). In 2003-2007, Sulawesi was 6.4% and far higher than Java (5.8%) and Sumatra (4.2%). In Sulawesi, Central Sulawesi and Southeast Sulawesi continued to enjoy very high growth rate more than 7% since 2004. West Sulawesi and Gorontalo also recorded more than 7% in 2007. Remaining provinces, South Sulawesi and North Sulawesi, also recorded more than 6%, higher than national average. It is true that there are some high growth provinces in Indonesia other than Sulawesi. But all provinces in Sulawesi recorded more than 6% growth in 2007. No such case in Java and Sumatra.

Table 1: GRDP Share and Annual Average Growth Rate (%)

	GRDP Share			Growth Rate	
	1999	2003	2007	1999-2003	2003-2007
East Area	17.7	16.4	16.8	3.5	4.0
West Area	82.3	83.6	83.2	3.7	5.3
Sulawesi	4.6	4.2	4.1	4.1	6.4
Kalimantan	9.5	8.9	9.1	3.0	3.5
Sumatra	22.4	22.4	23.0	3.0	4.2
Java	58.5	60.0	59.0	4.0	5.8
(Jakarta)	16.2	17.1	16.1	3.3	6.0

Source: Processed from BPS Annual GRDP Statistics.

Notes: East Area includes Kalimantan, Sulawesi, Nusa Tenggara, Maluku and Papua. West Area includes Sumatra and Java-Bali.

Recent dynamic regional economies in Sulawesi can be seen from lending-deposit ratio (LDR) in banking sector (Table 2). In the end of 2008, LDR in national level is 0.73. It means that lending is smaller than deposit and money in bank has not yet utilized effectively. However, LDR in Sulawesi is 1.12 and it means inflow of money to Sulawesi is larger than its outflow from Sulawesi. LDR in Sulawesi had been higher than national average in 2004-2008. Especially, LDR in South Sulawesi became more than 1 since 2005, followed by other provinces in Sulawesi. At last, in the end of 2008, all provinces of Sulawesi recorded more than 1. As same as GRDP, it is different from Java and Sumatra, where discrepancies existed among provinces.

Table 2: Lending-Deposit Ratio (LDR)

	2004	2005	2006	2007	2008
National	0.57	0.61	0.61	0.65	0.73
Sulawesi	0.89	0.98	0.95	1.02	1.12
Sumatra	0.70	0.74	0.68	0.76	0.85
Java-Bali	0.54	0.57	0.58	0.62	0.70
Kalimantan	0.74	0.72	0.66	0.75	0.82
Others	0.47	0.47	0.39	0.47	0.58

Source: Processed from Bank Indonesia Monthly Statistics Report.

## 2.3 Makassar and Manado: Center of the Growth

Sulawesi has two cities that play important role for regional development: Makassar and Manado. Makassar is located at south-west of Sulawesi and Manado at north-east of it. Both cities have played important roles

for Sulawesi regional development and the function should be improved to support regional development process in Sulawesi and *KTI*.

Makassar is the most populated city (about 1.2 million residents) in Sulawesi, and is defining itself as a development service center for Sulawesi and *KTI*. Since Dutch colonial era, Makassar had had significant economic roles as trade center of premier commodities (including copra, sea cucumbers, shark fin, and spices) from Sulawesi and *KTI* to overseas and as distribution center of manufactured goods from Java and overseas to *KTI*. As mentioned, GoI considers the role of Makassar should be strengthened to boost regional development in Sulawesi and *KTI*. With assistance from Japan through JICA, GoI and South Sulawesi provincial government are applying the integrated urban area development plan with related local governments, in the name of *Maminasata* Area Development. *Maminasata* is an acronym (Makassar + Maros + Sungguminasa + Takalar) and the area includes Makassar city, Gowa district, Maros district and Takalar district. Under this plan, urban infrastructures development as road, seaport, airport, water supply/sewerage, and garbage treatment are planned and some of them have been already realized.

Manado is the second populated city (about 400 thousand residents) after Makassar in Sulawesi. Manado is geographically the nearest city in Indonesia to Japan and defines as the gateway to the Pacific. Manado also has the Sam Ratulangi International Airport with direct flight to Singapore and Kuala Lumpur, and is near to Bitung port that is the same status as international port like Makassar port. In 2009, North Sulawesi provincial government and Manado city government succeeded to hold two big international events in Manado: World Ocean Conference (WOC) in May and Sail Bunaken in August. These events have been strategically utilized as good occasions to boost infrastructure development and tourist promotion to overseas. Manado plans to be the international tourist city in 2010. Through these big international events, Manado is now rapidly famous in international tourism market.

Makassar and Manado have different characters as attractive points. Even though the two feel the rival sentiments each other, such different characters should be utilized to complement each other to lead Sulawesi regional development. Currently, GRDP growth in Sulawesi has been led and concentrated by provincial capital cities, especially Makassar and Manado.

#### 2.4 Commodity-based Development Strategies

Main economic activity in Sulawesi is agriculture. Agriculture production in Sulawesi has two aspects; foodstuff production as paddy and export-oriented cash crop production as cacao, coffee, and spices. Weight of cash crop production in Sulawesi is higher than Java whose agriculture is relatively concentrated to domestic market oriented. South Sulawesi had tended to focus on commodity based agriculture development policy since 1980's, when a JICA study tried to make commodity mapping with identification which crop was suitable to where. Based on this experience, South Sulawesi provincial government applied development policy called the commodity zoning (*Wilayah Komoditas: Wilkom*) to increase production of local agricultural commodities. After *Wilkom*, this approach has been modified and now South Sulawesi provincial government conducts so-called *Gerbang-emas* (*Gerakan Pembangunan Ekonomi Masyarakat*), the People's Economy Development Movement since 2003, with selecting about 10 commodities and provincial government has just facilitated for economic actors to get market information and credit from bank.

Other provinces in Sulawesi are now also trying to apply the similar approach. In 2004, *BKPRS* and UNIDO conducted a survey on local commodities in Sulawesi and made a commodity mapping for all Sulawesi. This is the occasion to discuss about commodity-based spatial planning and its regional development strategy in the context of inter-regional cooperation among provincial governments. All governors in Sulawesi agreed to make Corn Belt and Cacao Belt in Sulawesi to increase the production with production sharing among provinces in Sulawesi. Usually the demand from outside to one province is bigger than its supplying capacity. Corn ordered to Gorontalo can be satisfied if South Sulawesi prepares some corn to Gorontalo. Inter-regional cooperation in Sulawesi includes this kind of collective action.

#### 2.5 Expected Contribution and Bargaining to National Economy

In the financial crisis in 1997-1998, Indonesian rupiah has fallen until to 1 USD = 16,000 rupiah (currently around 10,000 rupiah) and it gave serious damage to domestic economy especially to manufacturing industry in Java with depending on imported materials, and low agricultural production under severe and longer dry season at the time. On the contrary, cash crop farmers in Sulawesi suddenly enjoyed windfall income increase with high price of international market and weak Indonesian rupiah. Not a few Sulawesi farmers became rich and expected for longer financial crisis at that time.

As mentioned before, Sulawesi has bigger weight to export-oriented cash crop production rather than Java. This different regional agricultural condition could decrease damage of Indonesian economy under financial crisis. We should learn from this experience to think next development strategy in Indonesia.

Sulawesi economy may have some contribution to national economy.

In Sulawesi Regional Development Consultation Meeting (*Musrenbang Regional Sulawesi*) at Makassar in May 2009, six provinces in Sulawesi declared that Sulawesi wants to be national foodstuff production center. Each province set the production target of paddy, maize, and other agricultural products to increase the share of Sulawesi in national production. This production increase strategy is based on the decrease of extensive cultivation in Java and supposed world-wide food crisis which will happen in the future. It is interesting that Sulawesi has not any more just requested special attention from central government, but now wants to make contribution to national economy, even though the main objective is still to strengthen Sulawesi's bargaining power to central government.

This collective tactics as one Sulawesi is welcomed by central government which makes main-island based Mid-term Development Plan for the next Yudhoyono government. This is the first collective tactics in Sulawesi and not yet in other main-lands.

### 3. ISSUES ON SULAWESI REGIONAL DEVELOPMENT

#### 3.1 Impact of Decentralization and Democratization

Introduction of decentralization since 2001 and the direct election of local-head since 2005 have given significant impacts for development process in Indonesia including Sulawesi.

First, decentralization had given opportunity for local government to manage its region through delegation of authority from central to local. However, because of lack of enough capacity by local government, the level of some public services has been fallen. Central government has requested to local government to satisfy the minimum service standards, but local government has worried this to be new opportunity to recentralization. Donor institution has concerned the local government capacity to manage public expenditure.

Second, decentralization resulted to create vague relation between provincial government and local government in planning and implementation of regional development policies. Before decentralization, it is clear that top-down or command-type relation from central government to provincial government and to local government in development policies. After it, provincial government still has the function as representative of central government in the province other than its autonomy function, but local government has only its autonomy function. Because hierarchal relation between provincial and local government is no longer clear in decentralization era, local government now does not want to obey the instruction from provincial government. On the other hand, communication and coordination capacity of provincial government has not been enough to accommodate aspirations from local governments. Central government has currently discussed the revision of the Local Autonomy Law (Law No. 32/2004) to strengthen the role of governor as the representative of central government with abolishment of direct election of governor by people to by provincial legislatures.

Third, introduction of direct election of local head (governor, district head and mayor) created political motivation for local political elite to get power for managing local government. During these ten years after start of decentralization, the number of province, district and city are dramatically increased. The process of local territory separation (*pemekaran daerah*) is still going on. The main objective of *pemekaran daerah* is to realize better people's welfare by creating nearer local government. However, *pemekaran daerah* has been sometimes motivated by local political elite to get its own power base. In Sulawesi, there are now many issues and ideas of *pemekaran daerah* in provincial level (such as East Sulawesi separated from Central Sulawesi, Buton Raya from Southeast Sulawesi, Luwu Raya from South Sulawesi, and two provinces from North Sulawesi) and in district/city, sub-district, and village level.

#### 3.2 Inter-Regional Gap and Several Gaps in Region

One of the main development issues in Indonesia is how to decrease inter-regional gap between Java and non-Java, or between West Area and East Area. Even though the growth rate of Sulawesi has been relatively higher than other regions, the GRDP share of East Area has not been significantly increased. Central government has acknowledged the necessity to make effective intervention to boost regional development of East Area through support to infrastructure development, which is usually seen as not economically effective and efficient. The first step to decrease the gap by GoI is to develop the function of capital cities as Makassar and Manado in order to defuse the positive impact to other areas.

However, there are several gaps in region. In Sulawesi, South and North Sulawesi are relatively more developed than other regions. In South Sulawesi, northern part is relatively more developed than southern part. In addition, the GRDP growth rate of Makassar in South Sulawesi and Manado in North Sulawesi are far higher than other districts in each province. Recently, regional development in Sulawesi has been led by

high development of provincial capital cities. It means the gap between the cities and other areas become wider. In this regard, we can see the multiple structure of inter-regional gap from national level to local level.

### 3.3 Agricultural Development and Industrialization

Sulawesi currently concentrates to increase the production of foodstuff and cash crop production through productivity improvement and introduction of new varieties. For example, South Sulawesi provincial government targets 2 million ton surplus production of paddy, 1.5 million ton surplus production of maize, and other numerical production target of some prioritized commodities. The production surplus is not only to satisfy domestic demand but also to export to increase farmer's income by using the price difference between buyer country as Malaysia and domestic market. According to South Sulawesi governor, Malaysia and the Philippines have strongly requested South Sulawesi to supply rice, maize and beef cattle.

The strategy to increase production of agricultural commodities looks like to be suitable in the short run. However, in long run, this should be shifted to improve the quality of these products. For example, cacao from Sulawesi has been exported to international market as second-class cacao and the quality has not yet competitive to other export countries. Because of existing low-quality cacao international market, there is little motivation for Sulawesi cacao producers to improve the quality as high as possible without any price incentive between fermented and non-fermented cacao. Also, farmers plant cacao not as export commodities but as all-year stable cash earning commodities for risk aversion from other agricultural production. We need to create the situation to export not only low-quality cacao but also high quality cacao which is recognized by international market. Other commodities face almost the same situation as cacao.

In Sulawesi, economic development has been historically based on trade rather than industry. Resource-based industry as rattan furniture had developed in 1980's but did not continued because national industrial development policy at last preferred to Java, and Sulawesi became to raw material supplier to Java again. Industry relocation from Java to Sulawesi is also still difficult because of higher cost of transportation and labor and lower labor skill than Java. Sulawesi needs clear industrialization strategy in the long run.

### 3.4 Economic Growth and Environmental Conservation

Sulawesi is a very unique island with many kinds of endemic species of flora and fauna. About 90 percent of mammals living in Sulawesi are endemic species. Sulawesi locates at the center of the most coral reef concentrated area in the world as indicated in the Coral Triangle Initiatives signed by six country's representatives at Manado in May 2009. In the context of biodiversity, Sulawesi area is very important asset for the world. However, people in Sulawesi have not yet truly recognized and acknowledged it.

Sulawesi at all is still busy to increase regional income through economic growth by utilization of its so-called abundant natural resources. As mentioned, production increase of agriculture commodities is put as the top priority. In addition to agriculture, gold mining in many places of Sulawesi has been popular since about ten years ago, since 2007 in particular. This raises or has potentials to raise the following issues; uncontrolled and scattered people-based small gold mining in locations that include national parks; possible tensions between incoming gold miners and local people; usage of mercury in the purification process and its damages to environment and miner's health. These issues should be properly addressed.

However, in the context of regional development focused on people's income increase, economic growth and environment conservation are big dilemma as policy choice for local government. Also Sulawesi is one of the most unique islands in the world. This is one of the serious and difficult problems in Sulawesi regional development.

## 4. TOWARD NEW DIRECTION FOR SULAWESI REGIONAL DEVELOPMENT

Regional development strategy tends to concentrate only for five years as local-head term before next direct election based on mid-term development plan. Usually, the policy focus will be changed when different local head is elected. The lack of long term perspective threatens the sustainability and consistency of regional development strategy. With taking consideration of many kinds of uniqueness and specialty in Sulawesi, sustainable development strategy in the long run with proper utilization of its natural resources should be always centered in Sulawesi regional development.

Even if Sulawesi has not traditionally had unitary sentiment as a whole, recent movement of inter-regional cooperation gives a good signal to build integrated regional development strategies for Sulawesi. The function of *BKPRS* should be effectively optimized and utilized to realize the harmonized and integrated regional development strategies. Existed development dynamism, based on traditional economic connection such as between western part of Sulawesi and Kalimantan and between northern part and the southern Philippines, should be effectively utilized and boosted without any artificial policy compulsion by

government sector.

Current policy target of agricultural production increase in the next step should be connected and shifted to increase its added value through industrialization. The process may start from simple processing of them in farmer's level, as like as from banana to banana chips. In order to defuse this simple starting of industrialization, learning and training opportunity for processing of commodities should be extended to farmer's level. Existing training centers may be utilized not only as training center but also as the training of trainer (ToT) center to setup and manage similar training centers by others. Sulawesi need many small scale training center which are easily accessed by farmers, and information about such training should be extended to everywhere. At the same time, Sulawesi had better start to consider industrial relocation not only from Java but also from other ASEAN countries in the long run. Resource-based industry will be competitive in the first stage, but other manufacturing industries also have potentialities because Sulawesi faces the Makassar Straits as international sea route and the nearest position to the Pacific Ocean.

The ToT way should be the key approach in every aspect of Sulawesi regional development. Human resource development and capacity development in government sector and private sector had better pay more attention to create many capable trainers and to make autonomous and sustainable human development and capacity development process. Sulawesi needs many trainers and training opportunities. Overseas assistance can be utilized only in the first stage to create qualified trainers. The trainer must create good trainer in the next stage without any assistance from outside. This endless process should be embedded in Sulawesi. For example, JICA is currently conducting the Sulawesi Capacity Development Project based on this ToT way and many other donors' assistance in the name of capacity development. Sulawesi can utilize this preferred condition prior to other region in Indonesia, and it may change the concept of human development and capacity development in the near future.

Sulawesi is one of the most important biodiversity centers in the world with very unique natural character and many kinds of endemic species of flora and fauna. Sulawesi is internationally paid attention as very special islands, as it said, our important asset to future generation. In this matter, Sulawesi has its own right to take initiative to create "new development model" which is different from other economic development model with concerning coexistence and synergy between economic development and environmental conservation for truly sustainable development. This is only one example in the future role of Sulawesi. Now is the time for Sulawesi to make some contribution not only to national economy in Indonesia but also to the world and other countries.

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