

1 An introduction to the issues

Hal Hill

1.1 THE ISSUES

In 2001, Indonesia embarked on a ‘big bang’ decentralization involving a major transfer of administrative, political and financial authority primarily to the district/municipality (*kabupaten/kota*) level of government.¹ Together with the rapid transition from authoritarian to democratic rule in the late 1990s, this initiative has transformed the country’s political, social and business life. While national government remains the major area of contestation, power has shifted irreversibly away from the centre. How this significantly increased regional autonomy works will have a crucial bearing on the future of the Indonesian nation-state. This volume, featuring contributions by 43 authors, provides a timely, comprehensive and analytical assessment of the country’s regional development dynamics in the post-decentralization environment.

The regions (*daerah*) are central to an understanding of modern Indonesia. With its 17,000 islands stretching across three time zones, Indonesia is the world’s largest archipelagic state. It features enormous diversity in its economy, ecology, ethnography, demography and much else. At the district level, for example, the richest region has a per capita income more than 50 times that of the poorest. Were they independent states, some parts of Indonesia would be classified as upper middle-income states, comparable to much richer Malaysia and Thailand, while other regions would be in the least developed group of extremely poor states.

The policy and intellectual paradigms in and on Indonesia reflect this diversity. It is the key sentiment in the national motto, ‘Unity in diversity’

1 Except where indicated otherwise, I refer to the second tier of subnational governments (*kabupaten/kota*) collectively as ‘districts’.

(*'Bhinneka tunggal ika'*). Indonesians worry about the preservation of territorial integrity and national unity to an extent that may surprise outsiders unfamiliar with the country's struggle to create a new nation-state. After all, Indonesia did not formally exist as an entity until 1945, or even in the imagination of the nation's independence leaders until the early twentieth century. In fact, it came into existence in part as a result of lines drawn arbitrarily on a map in far-off European metropolitan capitals. Given the colonial history of divide-and-rule tactics, Indonesians are often shocked by the seemingly innocuous observation to the effect that 'A glance at a map might seem enough to suggest the improbability of Indonesia' (Cribb 1999: 3). This sensitivity about territorial integrity is heightened by the fact that Indonesia's international boundaries have changed twice, first with the entry of what is now the two Papua provinces following an 'Act of Free Choice' in 1969, and then with the entry – in Indonesian if not international eyes – of East Timor in 1975 and its exit in 1999. In addition, there have been periodic secessionist movements, most notably the Permesta Revolt of 1957–58, when several regions attempted to leave the Republic. Unhappiness with Jakarta's authority has been present for much of Indonesia's history as a nation-state, with the peripheral regions of Aceh and Papua the most prominent examples.

Like all large nation-states, Indonesia has had to forge a workable set of arrangements governing administrative, political and financial relations between the central government and its subnational authorities. Although the country has always been a unitary state, in practice these arrangements have varied from strongly centralist to de facto federalist, as at present (Booth, Chapter 2; see also Mackie 1980). Although the Suharto regime (1966–98) was strongly centralist, in later years even it recognized the impracticability of concentrating so much administrative and financial power in the capital. Intellectually, the case for a more decentralized state was put eloquently by Clifford Geertz (1971: 19), arguably the most famous foreign researcher of Indonesia:

Archipelagic in geography, eclectic in civilization, and heterogeneous in culture, Indonesia flourishes when it accepts and capitalizes on its diversity, and disintegrates when it denies and suppresses it ...

The 1999 decentralization laws, Law 22/1999 on Regional Government and Law 25/1999 on the Fiscal Balance between the Central Government and the Regions (since revised as Law 32/2004 and Law 33/2004), define the current arrangements. They took effect from the beginning of 2001 and are regarded in the comparative literature on decentralization as substantial. The number of subnational administrative units is large and increasing rapidly. According to the central statistical agency, Badan Pusat Statistik (BPS), over the period 1998–2012 the number of

provinces rose from 27 to 34,² the number of districts (*kabupaten*) from 249 to 399, the number of municipalities (*kota*) from 65 to 98, the number of subdistricts (*kecamatan*) from 4,028 to 6,793, and the number of villages (*kelurahan*) from 67,925 to 79,075. As a result of these increases, subnational expenditure now makes up about half of consolidated government expenditure, net of interest payments and subsidies. Not only is the flow of funds to subnational governments large, but the use of these funds is mostly unrestricted. Over 90 per cent of subnational government revenue comes from central government transfers, with the General Purpose Fund (Dana Alokasi Umum, DAU) providing about 60 per cent of the total.

Combined with the equally abrupt transition from authoritarian to democratic rule, decentralization has transformed the Indonesian nation-state. More than a decade after the introduction of this reform, it is therefore timely to examine how effective the changes have been, and how they have affected Indonesian development. Theory suggests that decentralized governance is likely to produce superior governance outcomes, since policy makers will be closer and more directly accountable to local communities, and since competition among local governments for scarce mobile factors of capital and skills will lift general governance quality. A major issue to be addressed in this volume is whether the Indonesian experience confirms this a priori expectation.

Among the questions the contributors to this volume address are the following. First, how have Indonesia's regional development dynamics changed since the reforms? Second, how closely do social outcomes, including poverty incidence and environmental management, correlate with these development dynamics over this period, and have the poorer regions been protected by the decentralization reforms? Third, among the many factors shaping regional socio-economic outcomes – from the provision of infrastructure to the China-induced commodity boom – how important has decentralization been? Fourth, has decentralization contributed to the strategically important goal of preserving the country's territorial integrity, especially in the sometimes troubled peripheral regions? Fifth, how have population mobility, labour market integration and urbanization been affected by the changes?

More generally, the authors in this book are interested in finding out how the reforms are working in practice. Can one conclude that Indonesia is better governed as a result of decentralization? Are the better-governed regions being 'rewarded' with more investment and better amenities, suggesting that the reforms have contributed to faster socio-

2 This has involved the creation of eight new provinces, since East Timor was counted as one of the 27 provinces.

economic development? Or has the continued splitting (*pemekaran*) of administrative units to create new ones introduced a permanent, deep, institutionalized instability that is likely to retard the country's development progress?

1.2 MAJOR FINDINGS

The chapters that follow address these and related issues. They are based primarily on presentations delivered and discussed at the 2013 Indonesia Update Conference, held annually at the Australian National University, Canberra, in September. The organization of the book follows the conference structure, with contributions grouped under five headings: an overview of historical, economic, political and social patterns; decentralization and governance; local-level perspectives; migration, cities and connectivity; and challenges for Indonesia's periphery, with special reference to Aceh and Papua. I now briefly summarize the key findings of each chapter.

Historical, economic, political and social patterns

The four chapters in Part 1 provide an entrée to the issues.

In Chapter 2, Anne Booth examines the state of centre-region relations in 1949–99, before Indonesia's 'big bang' decentralization. She points out that much of the considerable literature on the decentralization reforms assumes that Indonesia's system of government was highly centralized from the time of the transfer of power from the Dutch in 1949 until the end of the Suharto era in 1998. She commences by examining the debates of the early 1950s about the optimal economic and political structure of the newly independent republic. These culminated in the Nasroen proposals to give some revenue-raising powers to local governments. Booth argues that, had the proposals been implemented, they would have made a considerable difference to the future course of central-regional relations. However, they turned out to be the road not followed. Instead, and especially after the regional revolts of the late 1950s, 'A system of "de facto federalism" came to apply, in which compromise and ad hocery affected economic as well as political aspects of the relationship between the centre and the regions' (p. 32).

After Suharto took power from Sukarno in 1966, 'an inexorable trend towards re-centralization' of both economic and political power took place (Mackie 1980: x). The second part of Chapter 2 therefore examines the consequences of the Suharto-era policies for regional development in Java and elsewhere. Law 5/1974 on Basic Principles of Regional Gov-

ernment provided the guiding framework, placing regional governors, many of them military officers, under the direct control of Jakarta. Large funds began to flow to the regions, especially during the oil boom period, thus assuaging local discontent to some extent. Greatly improved transport networks facilitated large-scale mobility, some of it officially supported through the national government's transmigration program.

There was little attempt, however, to encourage greater local resource mobilization, apart from some marginal attempts to reform the regional finance system in the 1990s. Hence, 'By the early 1990s, it was clear that there was considerable unrest in many parts of the country over the system of regional and local government that had grown up under Suharto' (p. 40). A major problem was that of 'rich provinces, poor people', with resource-rich regions receiving little revenue from the resource-based activities within their jurisdictions. Moreover, centralized controls remained cumbersome, leaving little scope for local initiative. The 1999 regional autonomy laws, which were in preparation prior to the Asian financial crisis, were thus a major advance. However, a key limitation was that 'they did not tackle the issue of devolving greater revenue-raising powers to either provinces or districts' (p. 41).

In Chapter 3, Marcus Mietzner provides a comprehensive yet nuanced overview of local-level politics since decentralization. He argues that it would be a mistake to focus solely on the myriad problems associated with the decentralization initiative, evaluated according to textbook principles of federal fiscal relations. It is not that these issues are unimportant, as the public's dismay over the seemingly endless cases of corruption at all levels of government attests. What is more important, however, is that the Indonesian nation-state has survived a traumatic episode in its history, despite 'Yugoslav'-type predictions of territorial disintegration. In fact, it is probably stronger now than at any point in its history: 'the really astonishing feature of decentralization 13 years after it was launched is how stable centre-periphery relations have become' (p. 62). From this perspective, the reform has achieved its main objective. In this respect, 'Indonesia seems to have made the right call on the project's fundamentals' (p. 64).

Mietzner develops this thesis with reference to five factors that explain the new system's strength and durability. These are the strong public satisfaction with decentralization; the flourishing of local identities after decades of attempts to impose uniformity; the increased level of state penetration and thus greater capacity of the civilian bureaucracy; the effective design of local elections that has avoided the dangers of ethno-political mobilization; and the emergence of new, popular leaders at the local level who – in some cases at least – have broken the monopolistic grip of established elites on positions of political power.

Together, the country's democratization and decentralization reforms have forged a radically different system of governance in Indonesia. Power has been devolved from the centre, yet the state as a whole has not been weakened, but rather strengthened. No longer are regional heads imposed by Jakarta. Electoral rights have been massively expanded, with the citizenry now electing personnel for 11 political institutions. The country now ranks highest in Southeast Asia in terms of electoral freedom. Long-suppressed local identities have been allowed to flourish, but this has not come at the cost of heightened inter-ethnic tensions. In fact, these are now better managed: 'decentralization and the renaissance of local identities [have] curtailed rather than catalysed centrifugal tendencies and major communal tensions' (p. 54). In addition, the focus on subprovincial units of administration, careful electoral design and the substantial, formula-driven injection of central government funds into the regions have all ensured that the major political parties have a national rather than a parochial orientation. There has also been a rapid civilianization of Indonesian politics. In the early Suharto era, 80 per cent of provincial governors had a military background. By the end of his rule the percentage had halved, and it has now fallen to just 6 per cent. Another important point to note is that local elections offer pathways to the national level, as illustrated by the dramatic rise of the leading contender in the 2014 presidential elections, Joko Widodo, from mayor of a small central Javanese city to governor of Jakarta.

Hal Hill and Yogi Vidyattama provide the first of the quantitative investigations of regional development outcomes in Chapter 4. Indonesia's subnational socio-economic statistics are reasonably well developed, with provincial accounts reliably available since the mid-1970s and district data since the mid-1990s. It is therefore possible to examine subnational dynamics for over four decades at the provincial level, and for almost two decades at the district level. A major empirical challenge is the frequent splitting (*pemekaran*) of administrative units since the late 1990s, especially at the district level. To prepare consistent estimates over time, the regional data have to be consolidated back to the boundaries that applied before these changes occurred.

The authors find evidence of both continuity and change in regional development outcomes. With regard to the continuities, they find that inter-regional differences in incomes and social indicators remain large, that inter-regional rankings have remained reasonably stable over time, that the east-west divide remains pronounced, that the provinces of Jakarta and East Kalimantan are still by far the two richest in the country, and that, among the major island groupings, Java continues to be the dominant regional economy. With regard to the changes, the authors find that the earlier and more recent commodity booms have lifted the

economic position of Kalimantan, and that the adverse effects of conflict are clearly evident, notably in Aceh and Maluku. The correlation between economic and social indicators at the subnational level is generally quite strong, with Papua being a major exception. Overall inter-regional inequality remains high, but stable, and is not greatly sensitive to the choice of indicators or administrative classifications. As would be expected, at the finer (that is, district) level of disaggregation there are greater inter-regional disparities and more fluid rankings. Perhaps surprisingly, however, the 2001 decentralization reforms do not appear to have had a significant impact on the underlying patterns of socio-economic inequality.

In Chapter 5, Amri Ilmma and Matthew Wai-Poi comprehensively examine regional social outcomes at both the provincial and district levels, with attention to what they term ‘uneven’ progress. The central question they ask is whether patterns of provincial poverty reduction have changed during the decentralization era. They commence with the observation that, putting aside the slowdown in poverty reduction in 2005–06 caused by food and fuel price increases, ‘At first glance, ... it would seem that poverty has fallen neither faster nor slower under decentralization than in the pre-*reformasi* period, whether in annualized percentage point terms or with reference to growth elasticities’ (p. 100). Poverty rates in Eastern Indonesia are about double the national average, while those in the three large Java provinces are close to the national average. Owing to Java’s large population, however, about 52 per cent of the poor reside there. Focusing on the period 1993–2012, Ilmma and Wai-Poi identify two subperiods, of economic and political crisis and recovery (1996–2003) and of a return to growth (2003–13). For the period as a whole, their two main conclusions are that poverty fell, except in the two special cases of Papua and conflict-affected Aceh, and that there was clear inter-regional convergence, in the sense that poverty fell more quickly in the poorer regions. In general, the provincial poverty rankings remained stable after 2002.

Turning to the district story, the authors examine the effects of *pemekaran* using a panel regression approach, and dividing the splitting (that is, newly created) districts into those that split early (up to 2005) and those that split late (after 2005). Noting that the districts that would later split were considerably poorer than those that would not, they find that ‘Districts that have split have enjoyed better socio-economic outcomes than those that have not’ (p. 125). These outcomes include greater poverty reduction, faster economic growth and better education indicators. In addition, they confirm convergence among districts, and highlight the effects of the natural resource boom, with commodity-intensive districts performing better than the average.

Decentralization and governance

The four chapters in Part 2 examine various aspects of the evolving system of local government, centre–region relations and the quality of local governance.

In Chapter 6, Blane Lewis provides a comprehensive balance sheet of the record since 2001. The expected outcomes from the decentralization reforms included better-quality services, as legislators would be closer to their constituents. Yet there is little evidence for this, as indicated, for example, by the deteriorating quality of local roads. Funding does not appear to be the main explanation: ‘The argument that regions ... lack sufficient funds to deliver improved public services seems implausible. ... It is hard to see how central–local transfers could be much larger than they are given the country’s current fiscal circumstances’ (p. 145). In fact, the problem seems to have more to do with efficiency: subnational governments ‘spend too much on administration and personnel ... and not enough on actual service delivery. ... More broadly, the general level of spending appears to have little or no effect on a wide range of service outcomes’ (pp. 145–6). Lewis also notes other features of the decentralization initiative, including the variable quality of local governments, the rigidity of the central government’s funding formulas and some promising, albeit tentative, results from two experiments with inter-governmental performance grants.

Notwithstanding the significant transfer of funds to provinces and districts since 2001, Lewis concludes that service delivery outcomes have improved little if at all. Theories abound as to why this is the case. The most frequently voiced explanations concern insufficient funding of provincial and local governments, weak subnational implementation capacity and improper design of intergovernmental fiscal relations. While all of these may be legitimate to a certain extent, taken together they are insufficient to explain the poor results. Arguably, the most binding constraint to successful decentralization in Indonesia is weak accountability at the local level. And this lack of accountability is to a large extent a function of insufficient demand from citizens for improvements to services.

The next three chapters probe various aspects of local-level governance in more detail. In Chapter 7, Arianto Patunru and Erman Rahman focus on the quality of local governance and development outcomes. Taking advantage of datasets on local economic governance covering more than 400 districts in the period 2007–11 and auditor opinions issued by the State Audit Agency (Badan Pemeriksa Keuangan, BPK), they explore the correlation between governance indicators and social and economic outcomes. They also relate these factors to budget policy as revealed by a dataset on local budget allocations. In doing so they are

able to control for whether the districts have or have not split. Thus, they are able to examine whether good governance leads to better economic and social outcomes, whether good budget allocation leads to better development outcomes, and whether good governance leads to better budget allocations.

Among other things, they find that better governance is associated with higher economic growth. Governance in infrastructure issues (for example, quality of infrastructure, time needed to repair damage) matters the most, while a higher proportion of personnel expenditure in total expenditure is associated with poorer outcomes. In fact, while business licensing procedures and audit outcomes appear to be improving, infrastructure provision is highlighted as a consistently serious problem. The authors also observe that newly established districts are less likely to receive a positive auditor report from BPK, suggesting that the formation of new districts does not necessarily lead to good governance and hence to better development outcomes. This conclusion adds weight to the case for tightening the *pemekaran* processes. The diversity of the provinces surveyed – Aceh, East Java and West Nusa Tenggara – adds plausibility to the authors' results.

Complementing this analysis, in Chapter 8 Günther Schulze and Bambang Sjahrir examine the effects of decentralization on the quality of local governance and public service delivery. The chapter is premised on the notion that theory does not provide clear guidance on the expected effects: decentralized public service delivery may better cater to regionally differentiated preferences and allow for greater transparency because decisions are closer to the people; or powerful local elites may capture the process of public service delivery, thereby negating the positive effects of decentralization. The authors attempt to resolve this issue empirically, through econometric evidence (not reported in detail) derived from large panel datasets of Indonesian districts.

Specifically, the authors investigate the process of public service delivery from three perspectives, the input stage, the production stage and the output stage. First, the input perspective concentrates on whether the spending patterns of districts have become more 'needs-oriented', and thus better reflect the preferences of the constituency. Schulze and Sjahrir conclude that decentralization has led to more needs-based spending patterns in district budgets, but that the steps towards deepened democratization at the district level – the progression from appointed to indirectly elected to directly elected district heads – has had no statistically significant effect.

Second, the authors analyse public service delivery from the production (technology/governance) perspective, asking how efficiently local government resources have been used. They take as a proxy for waste

the extent of local government spending on administration. Controlling for the emergence of new districts (*pemekaran*), they show that a lack of political accountability is responsible for administrative overspending of districts. The extent of this overspending is significantly higher in districts with lower political competition; the transition to direct elections of district heads, however, did not curtail the waste.

Third, the authors look at public service delivery from an output perspective, comparing service delivery patterns in health, education and infrastructure before and after decentralization. They conclude that districts with relatively low levels of public service provision raised their service levels faster than well-performing districts, thereby leading to convergence of service delivery levels. Decentralization had positive effects on public service delivery levels but democratization has not yet had a significant effect on budget composition and the efficiency of local government spending.

Chapter 9, by Neil McCulloch and Edmund Malesky, investigates the determinants of the large variations in the quality of local economic governance in Indonesia and Vietnam. The differences between the two countries are of course significant: Indonesia is significantly larger with respect to both population and geography, it is more democratic, and its decentralization was both quicker and more comprehensive. But the comparative dimension is nevertheless important as a means of benchmarking the Indonesian record against that of a dynamic neighbouring economy.

The authors explore the empirical relationship between structural characteristics and economic governance in both countries; that is, they seek answers in the realm of structural determinants rather than simply the quality of political leadership. They find that GDP per capita, population and location have a significant impact on the quality of local economic governance in Indonesia, but not in Vietnam. They also find evidence that regions with greater policy autonomy have better governance in both countries. In the case of Indonesia, they find that districts with larger economies, and larger populations, have worse governance; that being a city has no impact on governance; and that there is no relationship between governance quality and the share of mining in the local economy. Surprisingly, however, ethno-linguistic fragmentation did appear to have a positive influence on the overall governance measure. A concluding section advances a hypothesis for how the two countries' different political institutions might explain the observed differences. As in the cross-country literature on this subject, the direction of causality between the quality of governance and economic performance remains controversial.

Local-level perspectives

Much of the analysis of decentralization has focused on national perspectives, and how the system works as seen from Jakarta. The three papers in Part 3 take as their starting point various local-level perspectives, including community empowerment, ecological management and poverty outcomes.

In Chapter 10, John McCarthy and colleagues draw attention to an important subnational initiative that is formally outside the decentralization reform program, the National Community Empowerment Program (Program Nasional Pemberdayaan Masyarakat, PNPM). Scaling up a program pioneered by the World Bank, in 2006 the Indonesian government began to roll out this community-driven development program on a nationwide scale, across nearly 70,000 villages in 6,681 subdistricts. Now one of the largest and best-known examples of its kind, the PNPM program focuses on improving participation in the allocation and management of block-grant community development funds. By strengthening the role of local communities in this way, it seeks to harness the energies of civil society to improve the transparency and accountability of local development projects, and to stimulate community ownership of development goals.

The authors note that, for all its lofty rhetoric, the PNPM suite of programs has attracted mixed reviews. They conclude that, 'compared with state-level planning processes, PNPM offers a more effective means of channelling central government funds to the village level and an improved approach to planning and delivering local infrastructure, by providing mechanisms for increased participation' (pp. 252–3). It also gives villagers the opportunity to acquire knowledge and skills, by participating in planning meetings for several years. However, the authors conclude that the potential for PNPM to address poverty remains a vexed question. The program involves lengthy and complicated planning and implementation procedures with considerable transaction and opportunity costs, which in turn constitute a disincentive for the involvement of the poor. The 2004 revisions of the 1999 regional autonomy laws were clearly aimed at restoring executive over legislative authority at the village level. McCarthy and colleagues contend that the revived constraints on the authority of village councils in this legislation, and the fact that PNPM processes ignore them, 'has to be considered one of the serious structural problems that must be addressed in order to overcome deficiencies in achieving the program's objectives' (p. 256).

In Chapter 11, Ida Aju Pradnja Resosudarmo, Ngakan Putu Oka, Sofi Mardiah and Nugroho Adi Utomo switch the focus to the management of forest lands in Indonesia's Outer Islands. Decentralization has shifted authority over most natural resources to subnational governments,

with analysts arguing that bringing decision making closer to the people should improve the management of resources because 'locals know best'. As part of the reforms, land use was decentralized but forest management was not. More than a decade on, the authors pose the following questions. Is improved management evident in the forest sector? What factors have contributed to this outcome? Can the most recent initiatives to improve the management and governance of forest lands work?

The authors also examine whether decentralization has fundamentally changed the ways in which the fragile ecologies outside Java are managed, focusing on the Indonesian forest estate (*kawasan hutan*). They investigate regional and national spatial planning processes, oil palm and mining developments as these relate to forest lands, and the programs currently being implemented under the United Nations' Reducing Emissions from Deforestation and Degradation (REDD+) scheme. They find that the impetus for local development continues to outweigh longer-term ecological considerations and thus affects the ways in which forests are managed. REDD+ has been put forward as one option to reconcile the competing livelihood and environmental goals held for Indonesia's forests. The scheme is still in the initial phase and is being implemented within a context of complex governance challenges, so it remains to be seen whether it can help reshape the current development agendas in the regions in a more environment-friendly manner. The presidential instruction (Inpres) placing a moratorium on the conversion of primary forests and peatland is proving effective and is a step in the right direction.

In Chapter 12, Sudarno Sumarto, Marc Vothknecht and Laura Wijaya return to the issue of poverty, asking how economic growth has contributed to poverty reduction at the regional level, with particular emphasis on the role of decentralization. Although poverty incidence at the national level almost halved between 1999 and 2013, the regional patterns are uneven. The authors examine the factors that have driven the evolution of poverty since 2001, and relate district performance in poverty reduction to a wide range of social, economic and political characteristics. They find, as expected, that GDP per capita is one of the major driving forces behind the decline in regional poverty. Results from a panel data analysis covering the period 2005–10 show that poverty has decreased in particular in those districts with a larger share of local leaders with secondary education; higher overall average educational attainment; an established local office for the coordination of poverty reduction initiatives (Tim Koordinasi Penanggulangan Kemiskinan Daerah, TKPKD); a higher share of fiscal revenues; and a more urbanized population. Moreover, there appears to be a link between income inequality and poverty, suggesting that a successful poverty reduction strategy requires both economic growth and sound social policies.

The authors make some pertinent general observations on the decentralization process and regional social outcomes. A key point is that the revised administrative and political systems are still in transition – that decentralization ‘occurred too quickly and therefore lacks a comprehensive policy framework’ (p. 310) – so definitive judgements may be premature. Local-level violence and *pemekaran* are still seen as major problems, and help to explain the uneven reductions in poverty across regions. Unobserved variables also account for some of these variations. For example, the authors conclude that: ‘Beyond the socio-economic factors controlled for, districts in Kalimantan appear particularly successful in reducing poverty, while the opposite is observed for districts in Papua’ (p. 308).

Migration, cities and connectivity

The regional components of a nation-state connect through the movement of people, through commerce and through various forms of media. Rapidly increasing urbanization is one manifestation of these developments. Hard and soft infrastructure is the glue that binds a nation together. The four chapters in Part 4 examine various aspects of these issues, including migration, labour market structure and adjustment, the state of logistics and the challenges of managing the urban colossus of greater Jakarta.

First, Chapter 13 by Salut Muhidin looks at ‘people on the move’. The author documents population mobility from the 1970s through to 2010, drawing on both lifetime and recent migration data from the decennial population censuses and survey data. A major focus is the effect of migration on settlement patterns, that is, the relationship between internal migration streams and regional development, including urbanization, economic indicators (GDP and employment rates) and measures of human capital (life expectancy and the proportion of the population with a secondary education). The results demonstrate that migration has been an important cause of the complex transformations in the patterns of human settlement in Indonesia.

The analysis highlights both continuity and change in these patterns. There are the established patterns of out-migration from regions such as West Sumatra, and from the conflict zones, Aceh and Maluku, in contrast to the major inward flows to the strong regional economies of East Kalimantan and Riau. Some regions, most clearly Bali, have switched their migration status from net out-migration to net in-migration. It is also important to distinguish between intra-provincial, inter-provincial and inter-island movements of people. Whereas intra-provincial migration appears to be rising over time, the other two forms are relatively stable.

Some migration takes place in steps, with the ultimate target destination of many migrants to West Java, for example, being Jakarta. The age profile of migrants is clear, with a peak in the 20–24 age group. Aside from the usual employment and family explanations, education is an important motive for people in this younger age group to migrate to Java, and to particular regions within Java, most notably Yogyakarta.

Migration is also central to an understanding of regional labour market outcomes and patterns, as analysed in Chapter 14 by Chris Manning and Raden Muhammad Purnagunawan. They commence with the observation that the Indonesian labour market is fragmented geographically and still bears the signs of the dualistic division dating from colonial times between densely populated Java–Bali and most of the more land-abundant Outer Islands. Rapid national economic growth based on both export-oriented industrialization and resource booms began to alter that historical pattern during the Suharto years. Labour market patterns have become more complicated since decentralization. Manufacturing has stagnated in Java, while the commodity boom and increased local revenues from natural resources have provided opportunities for human resource development and economic diversification outside Java.

The large inter-regional differences in income are reflected in labour productivity patterns, with output in Jakarta and East Kalimantan, for example, being at least three to four times the national average, and the proportion of the workforce in formal sector employment being higher. Manning and Purnagunawan observe that there are some signs of convergence between provinces, with several poorer provinces shedding some of their agricultural workers. In others, however, high rates of population growth, low levels of education and low levels of out-migration mean that much of the workforce continues to be trapped in low-productivity agriculture. Still, there are remarkable similarities in the trends towards greater formalization of the workforce and improvements in unemployment rates and wages across Indonesia, indicating that the worse-off provinces have not been left seriously behind.

While forces outside the labour market have contributed most to inter-provincial differences in employment and wages, the authors note that government regulation of wages has had an impact on manufacturing employment growth across the country, and especially in Java. They single out the dampening effect of national legislation (Law 13/2003 on Labour), regional variations in wages, and union and political party alliances to push up wages in manufacturing around the national capital.

Nowhere are migration and labour market patterns more pronounced than in the national capital, Jakarta, the subject of Chapter 15 by Tommy Firman. Appropriately, the author focuses on the greater Jakarta region, termed Jabodetabek, which not only comprises the urban area

within the city's administrative boundaries but also extends across three provinces (Jakarta, West Java and Banten), and includes five municipalities (Bogor, Depok, Tangerang, South Tangerang and Bekasi) and three districts (Bogor, Tangerang and Bekasi). This region accounts for about one-quarter of Indonesia's non-oil GDP, a much larger share than the next group of major cities (Surabaya, Bandung, Semarang, Medan and Makassar) or the remaining, smaller group of urban areas, which each contributes about 15 per cent of the national economy. Most of the population growth in greater Jakarta is in fact occurring outside the city boundaries, reflected in the fact that Jakarta city's share of the total population of Jabodetabek declined from 55 per cent in 2000 to 36 per cent in 2010. The greater Jakarta region had a population of about 28 million people in 2010.

The rate of what the author terms 'mega-urbanization' in Jabodetabek appears to be accelerating, but the process is largely uncontrolled. There is intensifying land-use conversion, growing numbers of condominium and infrastructure projects in the city centre, and a proliferation of new towns, large-scale residential areas and industrial estate developments in the fringe areas. The challenges are therefore daunting and complex. They include increased vulnerability to natural disasters such as floods and rising seawater, and actual and potential human-induced calamities caused by excessive groundwater extraction and air and water pollution. Overall, the recent development of Jabodetabek reflects the impact of liberalization of the economy on mega-urban development, and demonstrates how the new decentralization policy has resulted in further fragmentation of administrative authority in the region.

The key challenges for policy makers are to improve governance, to enhance the city's competitiveness and to improve its citizens' quality of life. Urban settlements are spreading into areas set aside for conservation and water supply or as water recharge areas. Land-use planning arrangements are weak. Transport is a huge concern, contributing to onerous commuting times and very high levels of air pollution. Mass transit schemes have been proposed for over a third of a century but only now appear to be under way. Flooding is becoming an ever more serious problem, especially for the poor; in 2007, 40 per cent of the capital was under water for several days. Governance is complicated by split jurisdictions, with the role of the coordinating agency headed by the three provincial governors seen as 'ineffective and powerless' (p. 380).

The processes of migration, labour market integration and urbanization work effectively only if there is an efficient transport network that glues the country together. This is the subject of Chapter 16 by Henry Sandee, Nanda Nurridzki and Mohamad Adhi Prakoso Dipo. They note that intra-island, inter-island and international transport connectivity has

received ample attention in recent years, with the formulation of master plans and logistics blueprints to reduce transport costs and increase reliability. However, the challenges remain great, as indicated by the high cost of inter-island transport and consequent large inter-regional price differences. The authors present ample comparative data demonstrating that logistics costs are considerably higher – sometimes by a very large margin – in Indonesia than in its more efficient neighbours. They draw attention to the problems at the country’s major port, Tanjung Priok, where throughput doubled between 2007 and 2013 but ‘no substantial investments to improve productivity and to start planning for an extension were made for many years’ (p. 394).

The problems derive from both limited infrastructure investment and regulatory barriers. Underinvestment in infrastructure since the late 1990s has contributed to the low quality and quantity of roads, ports and railways. As a percentage of GDP, Indonesia’s infrastructure expenditure is currently about half that in the Suharto era. Regulated constraints on competition and on efficient service provision compound the problems. The contrast between the successful deregulation of air transport and the lack of reform in shipping is striking. In fact, Law 17/2008 on Shipping introduced cabotage principles that limit the movement of cargo between domestic ports to Indonesia-flag vessels. The government has recently released master plans and blueprints laying out a strategy to improve connectivity. The question is whether they will be able to address crucial bottlenecks, such as the lack of coordination between the central and local governments and the uncertain commercial environment for potential private sector providers.

Challenges for Indonesia’s periphery

The challenges of managing the immensely complicated Indonesian nation-state are nowhere better illustrated than in the peripheral regions. These are examined in Part 5 of this volume through detailed economic and political analyses of the far eastern region of Papua and the north-western region of Aceh. Both have turbulent histories, have experienced episodes of serious conflict and have uneasy relationships with Jakarta. Living standards have also risen more slowly in these provinces than elsewhere, a situation exacerbated in Papua’s case by its isolation, and in Aceh’s case by Indonesia’s worst natural disaster in modern times.

The first two chapters in Part 5 examine Papua. In Chapter 17, Cillian Nolan, Sidney Jones and Solahudin explore the connections between *pemekaran*, local elections and conflict. Using Nduga district as a case study, the authors examine how the redrawing of administrative boundaries in the Papuan central highlands is frequently based on

highly dubious population data, and how it creates entities that too often result in more corruption and worse governance. The creation of dozens of new districts in the last few years is changing the political face of Papua, reducing the long-term dominance of coastal elites in favour of highlanders. The authors maintain that Jakarta initially saw *pemekaran* as a divide-and-rule strategy to ensure that no region in Papua became too powerful. But the result has been to create a 'gigantic headache for Jakarta'. Moreover, they assert, bringing government closer to the people is a smokescreen: '*Pemekaran* appears largely to be about gaining access to resources – especially central government revenue streams – but it is also about promoting the interests of clans (*suku*) and subclans' (p. 413).

All governance indicators look discouraging. The number of civil servants has risen dramatically, from 37,000 in 2000 to 114,000 in 2011. The number of villages has also risen very quickly, induced by the prospect of block grant payments to each village of about Rp 100 million. There are persistent auditing problems at the provincial and district levels, and many of the Papuan districts rank poorly on the central government's governance quality indicators. Although there is increased 'Papuanization' of local governments, there has also been a rise in local electoral conflict, prompting the Ministry of Home Affairs and the current Papuan governor, himself a highlander, to suggest that direct local elections be abolished in Papua. The authors argue that it would be better to reform the *pemekaran* process than to stop local elections, but that this may now be politically impossible.

Complementing this analysis, Budy Resosudarmo, Julius Mollet, Uumbu Raya and Hans Kaiwai investigate Papua's development challenges in Chapter 18. Their starting point is the observation that, notwithstanding the implementation of Law 21/2001 on Special Autonomy for Papua, there is a common perception that Papuan development is a failed process. In particular, development has so far been limited to extractive industries and has not been inclusive, marginalizing indigenous Papuans. Like other authors in this book, Resosudarmo and co-authors highlight Papua's very high poverty incidence and lagging social indicators, especially in rural areas, the urban bias in much government spending, the region's very poor rural infrastructure and the enclave nature of its natural resource developments. In passing, and as a further reminder of the region's complexities, it could be noted that these are very similar to the problems facing neighbouring Papua New Guinea.

Each of the Papua provinces is highly dependent on a single, very large natural resource project: Freeport accounts for about 47 per cent of the GDP of Papua province, and BP Indonesia's Tangguh gas project accounts for about 54 per cent of the GDP of West Papua province. The economic fortunes of both provinces therefore depend on these volatile

natural resource activities. More generally, the authors seek to understand the factors behind the failure of development in Papua over the past 10 years. Particular attention is given to describing demographic, social and regional economic changes; agglomeration and resource-based industries; poverty and equality; and some key regional government policies.

Turning to Aceh, in Chapter 19 Edward Aspinall examines political developments since the August 2005 peace settlement and the local autonomy package embodied in Law 11/2006 on the Governing of Aceh. The author cautions against overstating the importance of the latter: the law's provisions either do not exceed those granted to other provinces, or go no further than those of the previous, unsuccessful, 2001 special autonomy law (Law 18/2001 on Special Autonomy for Nanggroe Aceh Darussalam). Moreover, several important implementing regulations for the 2006 law have not yet been issued.

Nevertheless, special autonomy has been critical to securing peace. Above all, two sets of provisions have helped prevent a return to conflict. First are the provisions allowing former combatants of the Free Aceh Movement (*Gerakan Aceh Merdeka*, GAM) to contest elections in Aceh, and thus to occupy a dominant position in local government. Second are provisions that have significantly boosted Aceh's revenues, providing increased funds for patronage as well as development. This combination has fostered an environment characterized by what the author terms 'predatory peace', in which former rebels have been persuaded to accept the authority of the Indonesian state as much by the opportunities for self-enrichment peace has afforded them as by their willingness to find a new *modus vivendi* in relations between Aceh and the rest of Indonesia. The challenge now is to convert the peace into development through improved governance, and to overcome the widespread perception of, in the author's words, 'the enrichment of a whole layer of former GAM commanders and leaders ... which is everywhere visible in the fancy houses, cars, second and third wives, and other symbols of wealth now possessed by many former insurgents' (p. 478).

In Chapter 20, Peter McCawley observes that sustained economic development in Aceh was held back by local conflict and dissent for over three decades from the mid-1970s. This changed following the dramatic events of 2004 and 2005 – the tsunami of 26 December 2004 and the Helsinki peace accord of 2005 – which created opportunities for progress and development. The return to 'normal times' since 2009 has given policy makers an opportunity to devise an effective development strategy for the province.

McCawley concludes that the huge aid flows to Aceh have had the desired effect of rebuilding shattered coastal infrastructure and provid-

ing local livelihoods. But there have also been local 'Dutch disease' effects resulting from the large-scale importation of relatively high-cost equipment and labour. One symptom of this problem is that per capita income is below the national average but minimum wages are above it. Such a divergence also reflects the dualistic features of the local economy, with a large natural resource sector existing alongside the major employment sectors of agriculture and services. Poverty remains above the national average, while governance quality is indifferent. The author argues that the province's relatively small size and its comparatively isolated location may constrain future development.

1.3 SUMMING UP

Distilling these findings, several major conclusions emerge from the book.

First, the decentralization reforms have 'worked' in the sense that Indonesia is by and large an increasingly prosperous, functional nation-state, with high levels of democratic participation and no serious threats to its territorial integrity. Given the record of territorial disintegration in several other ethnically and geographically diverse countries since 1970, and the periodic threats to Indonesia's own national unity and prosperity during its nearly seven decades of independence, this must be counted as an impressive, indeed remarkable, achievement.

Second, it comes as no surprise to find that, thus far, the operation of centre-region arrangements and local government administration has been uneven, and generally does not accord with textbook theories of federal fiscalism. There is little evidence of significantly improved public services; resource-rich areas have had much higher growth rates than poorer districts; government spending on salaries and buildings has ballooned; powerful elites have become the main players in local elections; and corruption is rampant, not least because of the rising costs of local political campaigns. The proliferation of new districts is proving to be a major headache for the central government. Infrastructure provision is a serious problem practically everywhere.

These two observations might appear to be mutually contradictory, but they are not. The decentralization system is still in its infancy, and the reforms are a work in progress. Voters relish the opportunity to punish poorly performing governments, and do so regularly. Moreover, Indonesia is hardly the only country in the world to experience poor standards of local governance. The key test will come in another decade or so, when the novelty of democratic freedoms will perhaps wane, and voters will be looking for institutionalized reform mechanisms that lock in better standards of governance.

Third, Indonesia's regional development patterns have changed less than might have been expected on the basis of these far-reaching reforms. Except for a small number of special cases, all regions have participated in the moderately high rates of economic growth enjoyed by Indonesia in the twenty-first century. The western region continues to be more dynamic than the poorer east, but there has been a slight convergence between regions on most economic and social indicators. At the very least, it can safely be concluded that inter-regional inequality in aggregate has not increased with the advent of greater regional autonomy.³ These conclusions apply regardless of the units of observation and the methodologies applied. In particular, the fear that the poor eastern regions would fall further behind as the fiscal equalization mechanisms embodied in the former centralized system were modified has not materialized.

Fourth, it is important to emphasize that the regional development agenda extends well beyond the decentralization reforms, and it is therefore unrealistic to expect these reforms to be able to address many local-level issues. For example, the country faces a serious infrastructure deficit. Decentralization has contributed to the problem, to the extent that there are greater inter-jurisdictional coordination issues, and the short horizons of many local governments have resulted in infrastructure investments receiving a lower priority. But the analysis in this volume indicates that much of the problem resides with the central government, including its inability to allocate sufficient resources and to create at the national level a regulatory and investment climate conducive to private investors. Another example concerns the management of the troubled peripheral regions, particularly Aceh and Papua. Democratic local governance has at least diffused the potent anti-Jakarta sentiment that used to exist in some regions, and the central government's management of its relations with Aceh in particular is generally seen as adroit. However, Papua remains the country's major regional development challenge, with seemingly the most intractable poverty problems. At the other extreme on the spatial continuum, there is no evidence that decentralization has facilitated the task of managing the mega-urban complex of Jakarta. Here too, the problems are to some extent beyond the remit of the regional autonomy legislation, to the extent that they reside in the national government's failure to keep up with the capital's need for infrastructure,

3 Kanbur, Rhee and Zhuang (2014) estimate the contribution of spatial inequality to total inequality in several developing Asian economies. Among the populous countries, Indonesia adopts an intermediate position in these estimates, with the spatial component contributing about one-quarter of total inequality, much lower than in China (over 50 per cent) and in India and Vietnam (in excess of 30 per cent), but slightly higher than in Pakistan and the Philippines.

and the historical lack of inter-jurisdictional cooperation between the leaders of the greater Jakarta area.

The chapters in this volume focus on both national and local development challenges. But one volume on such a vast topic cannot be the last word on the subject. In particular, the country's diversity and vast geographic spread dictate that the 'binding constraints' to development will vary enormously, and thus national development blueprints will have to be more sensitive to local conditions than they have in the past.⁴

A few brief local snapshots illustrate this proposition. First, for Jakarta, transport and environmental amenity are arguably the key preoccupations of local officials as the city struggles to cope with substandard infrastructure, deteriorating air quality and shrinking green space. As most of the growth in greater Jakarta now takes place beyond its formal administrative borders, inter-jurisdictional coordination and cooperation is a major challenge.

A second example is Papua, where the priorities are radically different: how to ensure the 'unity of the dual economy', so that the benefits of huge enclave mining projects are distributed more evenly to the local population. This must take place in the context of an uneasy relationship with Jakarta, pockets of extreme physical isolation, and very large socio-economic development gaps between urban and remote regions and between commercially aggressive migrants and a less sophisticated local populace.

A third illustration concerns the country's major export-oriented industrial regions, principally West Java, but also East Java and the Riau Islands adjacent to Singapore. For these provinces, a major challenge is to maintain their competitive positions in global production and buying networks, such as electronics, automobiles, garments and footwear, and to ensure that they continue to be major engines of broad-based employment growth. To achieve this, they need efficient, internationally oriented infrastructure, smart, simple regulatory regimes and access to high-quality, internationally competitive labour markets.

Most of Indonesia's natural resource endowments are located outside Java, with Kalimantan having the fastest-growing economy among the major island groups. These regions illustrate a fourth type of development challenge, with a focus on environmental sustainability. In mining and cash crops – with coal and palm oil the most profitable – local governments have to ensure that the proceeds of the boom are broadly

4 Some of these local development issues were examined in detail in the set of provincial economic surveys contained in Hill (1989), in an era when Indonesia was a more centralized, authoritarian state, and had a smaller, less complex economy. This is a volume that is greatly in need of an update.

distributed, both within and between generations. This in turn entails embedding efficient tax arrangements, strong environmental safeguards and the equitable and transparent allocation of resource rents, in what are inherently corruption-prone industries. Weak local institutions and infant democracies compound these challenges.

A final illustration comes from Indonesia's vast eastern islands. These are typically poor, remote, bypassed regions, in which the maritime economy is significant. Historically they have been regions of out-migration, and this could indeed continue to be a major pathway out of poverty for the inhabitants. But more could be done to raise living standards in situ. The maritime resources of the poorer regions could be used more effectively to benefit local communities. Tourism and dry-land agriculture also have potential in these regions.

The reader is invited to explore these and other issues in the rich and diverse set of chapters that follows.

REFERENCES

- Cribb, R. (1999) 'Nation: making Indonesia', in D.K. Emmerson (ed.) *Beyond Suharto: Polity, Economy, Society, Transition*, M.E. Sharpe, Inc., New York.
- Geertz, C. (1971) 'A program for the stimulation of the social sciences in Indonesia', report to the Ford Foundation, Jakarta.
- Hill, H. (ed.) (1989) *Unity and Diversity: Regional Economic Development in Indonesia since 1970*, Oxford University Press, Singapore.
- Kanbur, R., C. Rhee and J. Zhuang (2014) *Inequality in Asia and the Pacific: Trends, Drivers, and Policy Implications*, Routledge, London.
- Mackie, J.A.C. (1980) 'Integrating and centrifugal factors in Indonesian politics since 1945', in J.A.C Mackie (ed.) *Indonesia: The Making of a Nation*, Research School of Pacific and Asian Studies, Australian National University, Canberra.