Econ. J. of Hokkaido Univ.,
Vol. 34 (2005), pp. 171-192

Government Policy in Solving Uneven Regional Development between West and East Indonesia: Case Study on KAPET

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This paper evaluates Indonesian government policy undertaken to accelerate the development Eastern Indonesia and to solve regional disparities in income, namely the establishment of Integrated Economic Development Zones (*Kawasan Pengembangan Ekonomi Terpadu*, KAPET). Through a case study analysis of KAPET Parepare and KAPET Bima, we found that the KAPETs have not been consistently well managed. Therefore, to develop the KAPETs the government must be committed and consistent by considering the professionalism of KAPET management.

JEL Classification Numbers: O15, O29, R58
Key Words: Acceleration of Eastern Indonesia Development, Indonesia, Integrated Economic Development Zone (KAPET), Regional Income Disparities

1. Introduction

Uneven regional development is quite often considered by scholars when analyzing a country's economic development. In particular, in large countries such as China and Brazil, uneven regional development has occurred between different economic belts. In China, for example, it has occurred between coastal (East) and inland (Middle and West) regions (Song *et al*., 2000, Fujita and Hu, 2001, Herrmann-Pillath *et al.* 2002, and Cai *et al.* 2002). In Brazil such development has appeared between northern and southern Brazil (Azzoni, 2001). This problem also has been found in Southeast Asian countries such as Vietnam, Malaysia and Thailand (Hill, 2000). In Vietnam, significant differences in development levels have appeared between the northern and southern parts of the country. In Malaysia, a regional development gap has arisen between West and East Malaysia, and in Thailand, it has appeared between Bangkok and the rest of the country.

Regional development inequality in Indonesia has been studied extensively since the early 1970s.[1] To analyze this phenomenon, researchers have employed several economic and social measurements, such as GDP, per capita

[1] Beginning with Esmara (1975), who analyzed regional income disparities for the year 1972 based on estimations of regional GDP, studies on the inequality of Indonesian economic development have appeared since the 1970s. According to Esmara's calculation, per capita GRDP (excluding mining) differed by a factor of 12 between the highest income region of East Kalimantan and the lowest income region of West Nusa Tenggara. This study was followed by Uppal and Budiono (1986), Kameo and Rietvield (1987), and Akita and Lukman (1995).

GDP and other social indicators such as poverty, facilities and infrastructure. They have found differences in the natural conditions that have produced the growing gap in economic and social development among provinces. In addition, uneven regional economic growth leads to a constantly expanding gap not only among provinces and regions (West and East: Indonesia),[2] but also among municipalities/regencies within a province.

To overcome these problems, Indonesia's government has introduced and implemented various policies. It began in the late 1960s, when the government initiated an Indonesian development plan, called the First Five-Year Development Plan (*Rencana Pembangunan Lima Tahun* I, *Repelita* I 1969／70-1973／74), followed by other policies such as investment and financial reforms, interregional fiscal transfers (*the Inpres* program), and a migration program (Uppal and Budiono, 1986, Azis, 1990, Hanna, 1994, Takeda and Nakata, 1998). The outcomes, however, are still far from reaching expectations; i.e., development growth and economic activities are still concentrated, particularly in Sumatra and Java (West Indonesia).

Because studies on Indonesian government policies that relate to regional development disparities between West and East Indonesia are still limited in number, this study focuses specifically on evaluating a program (Indonesian government policy) implemented to overcome geographical obstacles and to accelerate regional development in East Indonesia, namely the Integrated Economic Development Zones (*Kawasan Pengembangan Ekonomi Terpadu*, hereinafter referred to as "KAPET"). This program, which the government introduced in 1996, is expected to enable Indonesia to finally create even economic development across the country.

The purposes of this study are to trace the establishment of KAPET from a regional policy perspective, to evaluate the current performance of KAPETs, and to provide some suggestions to Indonesia's government for the improvement of KAPETs performance in order to achieve balanced development between the West and East Indonesian regions, as well as for all regions (province, and municipality/regency).

This study is divided into three analyses. The first section, an analysis of income disparities, is comprised of comparisons among provinces for the country as a whole, between the two economic belts of West and East Indonesia, and among regencies/municipalities within five major regions.[3] The second section is an analysis of a set of government policies that focus on the acceleration of development in Eastern Indonesia. The last section is an analysis of the KAPET as a growth center for eastern Indonesian regions and includes problems illustrated with the use of case studies of KAPET Parepare and KAPET Bima. This study is based on fieldwork done at two KAPET Managing Bodies (*Badan Pengelola* KAPET), which were chosen to give a comparison between

[2] West Indonesia refers to Sumatra, Java and Bali and East Indonesia refers to Kalimantan, Sulawesi, Maluku, Papua and Nusa Tenggara.

[3] Major regions are classified as Sumatra, Java, Kalimantan, Sulawesi and Others (West and East Nusa Tenggara, Maluku and Papua).

strong and weak management.

2. Perspective on Development between West and East Indonesia: Literature and Statistics

2.1 Indonesian income disparities

Income disparity is one factor used for measuring regional economic development. A picture of the imbalanced regional economic development in Indonesia can be obtained through an inter-provincial comparison of income, using Gross Domestic Product (GDP) and per capita GRDP. Tables 1 through 3 present the 1997[4] GDP contributions and per capita GRDP of the two economic belts in West and East Indonesia and five major regions, and give a comprehensive outline of Indonesian income disparities. As shown in Table 1, West Indonesia contributed significantly to GDP, accounting for about 80% of GDP (including and excluding mining). The largest contributions were derived from Java (62% and 66%), followed by Sumatra (21% and 18%), Kalimantan (9% and 7%), Sulawesi (4% and 5%) and Others (4% and 4%).

Table 1 . GDP Contribution and per capita GRDPs for the year of 1997

	GDP contribution at current market prices				Per capita GRDP at current market prices			
	Including mining		Excluding mining		Including mining		Excluding mining	
	(Million Rp)	%	(Million Rp)	%	(Rp)	Index	(Rp)	Index
Sumatra	126,530,818	21	99,739,028	18	3,127,942	0.63	2,465,628	0.67
Java and Bali	363,873,638	62	356,377,015	66	3,054,956	0.61	2,992,017	0.81
West Indonesia	490,404,456	83	456,116,043	84				
Kalimantan	51,483,801	9	38,046,383	7	4,991,031	1.00	3,688,358	1.00
Sulawesi	25,036,043	4	25,036,043	5	1,813,266	0.36	1,813,266	0.49
Others	23,103,633	4	22,743,744	4	1,526,130	0.31	1,526,130	0.41
East Indonesia	99,623,477	17	85,826,170	16				

Source : Central Bureau of Statistics (2001), *Statistical Yearbook of Indonesia 2000*, p. 545, 547, 549, 551.

Note : The index used to measure the differences in per capita GRDP is calculated by comparing the per capita GRDP of each region to that of Kalimantan as the highest region (index of Kalimantan's per capita GDP=1.00).

In terms of per capita GRDP, Java and Sumatra contributed significant shares to GDP, however, the highest per capita GRDP was achieved by Kalimantan. Per capita GRDP in Java and Bali were just 0.61 (including mining) or 0.81 (excluding mining) of those in Kalimantan, respectively. The comparable figures in Sumatra were 0.63 and 0.67, in Sulawesi 0.36 and 0.49, and in other regions 0.31 and 0.41. The high per capita GRDP in Kalimantan reflected the high per capita GRDP in East Kalimantan, which has enjoyed high revenues as a mining province.

[4] This year was chosen because of several incidents that occurred after 1997, such as the monetary crisis in 1997 and the creation of new provinces such as North Maluku (Maluku), Banten (West Java), Gorontalo (North Sulawesi), and kepulauan Bangka Belitung (Riau) since 1999.

To give a better picture of Indonesian income disparities, Tables 2 and 3 show the highest and lowest GDP contributions and per capita GRDP in regencies/municipalities within provinces for each of the five major regions. Table 2 shows that Central Jakarta was the highest GDP contributor in the country. Kutai in East Kalimantan province was the highest contributor in East Indonesia (0.75 of Central Jakarta). In Sumatra, the highest contributor was Bengkalis in Riau province (0.50), in Sulawesi the highest contributor was Makasar in South Sulawesi province (0.15) and in Other Regions the highest contributor was Mimika in Papua province (0.19).

Although West Indonesia contributed a much larger share of GDP than East Indonesia, the lowest GDP contributor in the country was Sabang in West Indonesia at 0.03. This shows clearly that wide disparities occur not only between West and East Indonesia, but also within the regencies of West Indonesia.

Table 2. Highest and lowest GDP contributions in 1997 at current prices

	Highest GDP contributors				Lowest GDP contributors	
	Including mining		Excluding mining		Excluding/including mining	
	Regency/municipality	Index	Regency/municipality	Index	Regency/municipality	Index
West						
Sumatra	Bengkalis, Riau	0.50	Medan, North Sumatra	0.30	Sabang, Aceh	0.03
Java & Bali	Central Jakarta	1.00	Central Jakarta	1.00	Blitar, East Java	0.12
East						
Kalimantan	Kutai, East Kalimantan	0.75	Kutai, East Kalimantan	0.25	Central Hulu Sungai, East Kalimantan	0.14
Sulawesi	Makassar, South Sulawesi	0.15	Makassar, South Sulawesi	0.15	Selayar, South Sulawesi	0.06
Others	Mimika, Papua	0.19	Mimika, Papua	0.19	Alor, East Nusa Tenggara	0.06

Source: Central Bureau of Statistics (2002), *Gross Regional Domestic Product regencies/municipalities in Indonesia 1997-2000*, p. 1-40 (Table 1 to 30)

Note: The index is calculated by comparing GDP contribution of each region to that of Central Jakarta as the highest region (index of Central Jakarta's per capita GDP = 1.00).

Table 3 shows the highest and the lowest per capita GRDPs for all regencies/municipalities. As shown in Table 1, East Kalimantan was the region with the highest per capita GRDP including mining. If per capita GRDP of municipalities/regencies in each of the five major regions are compared, however, the highest per capita GRDP was achieved by North Aceh in West Indonesia. This reflects North Aceh's position as the country's oil and natural gas producer. The second highest per capita GRDP is achieved by Kediri (0.96), followed by Kutai (0.67).

In terms of GDP excluding mining, although Central Jakarta contributes the largest share of GDP, Kediri municipality in East Java appeared as the region with the highest per capita GRDP due to the presence of Gudang Garam, the largest cigarette manufacturer in Indonesia. West Sumba in East Nusa Tenggara province was the region with the lowest per capita GRDP in the whole country, with only 0.02 of the per capita GRDP of Kediri, due to to-

pography and a lack of natural resources. In West Indonesia, the lowest per capita GRDP was in Grobogan in Java and West Lampung in Sumatra (0.03).

Table 3 . Highest and lowest per capita GRDPs in 1997 (Regency/municipality level)

	Highest per capita GRDPs				Lowest per capita GRDPs	
	Including mining		Excluding mining		Excluding/including mining	
	Regency	Index 1	Regency	Index 2	Regency	Index 3
West Indonesia						
Sumatra	North Aceh, Aceh	1.00	Batam, Riau	0.29	West Lampung, Lampung	0.03
Java & Bali	Kediri, East Java	0.96	Kediri, East Java	1.00	Grobogan, Central Java	0.03
East Indonesia						
Kalimantan	Kutai, East Kalimantan	0.67	Kutai, East Kalimantan	0.70	Sintang, West Kalimantan	0.05
Sulawesi	Donggala, Central Sulawesi	0.34	Donggala, Central Sulawesi	0.35	Jeneponto, South Sulawesi	0.03
Others	East Lombok, West Nusa Tenggara	0.28	East Lombok, West Nusa Tenggara	0.29	Sumba Barat, East Nusa Tenggara	0.02

Source : Same as Table 2, p. 61-90 (Table 61 to 90)

Note : The index is calculated by comparing the per capita GRDP of each municipaility/regency to that of the highest region (index 1 to per capita GRDP of North Aceh, index 2 and 3 to per capita GRDP of Kediri).

2.2 Economic development between West and East Indonesia

As mentioned above, the issue of income differences among various regions across the country has been studied and the income differences uncovered have led to further discussion of the issue of regional economic development, particularly between East and West Indonesia. Until now, studies of Indonesian income disparities have expanded into research on differences between West and East Indonesia (Hill and Weidemann, 1991). Hill and Weidemann have classified Indonesian regions into five categories: resource-rich regions, isolated regions, densely populated regions, settled outer islands, and sparsely populated regions (Table 4).

According to the GDP contributions shown in Table 1, West Indonesia is richer and more dynamic than the east. Table 5 provides apparent evidence on crucial statistics between West Indonesia and East Indonesia for the year 2000. As home to around 80% of the country's population, and with about 32 % of the country's total land area, West Indonesia contributed around 81% of GDP in 1999. This contrasts with East Indonesia, with 68% of the country's land area and around 20% of the total population, which contributed only 19 % of total GDP. Furthermore, the Human Development Index (HDI 62.9) for East Indonesia is still below the national standard (HDI 64).

Moreover, the abandonment of East Indonesia development can also be denoted by the shares of investment amounts between West and East Indonesia. According to statistical data for 2003, East Indonesia accounted for just 15 % of the country's total investment. Moreover, this condition is shown by the share of the development budget received from the central government, which is only around 18% of the country's total development budget.

Table 4 . Classification of Indonesian regions

Region type	Resource-rich	Isolated	Densely populated	Settled outer islands	Sparsely populated
West Indonesia	Aceh Riau Jambi		Lampung Jakarta West Java East Java Central Java Yogyakarta Bali	North Sumatra West Sumatra South Sumatra	Bengkulu
East Indonesia	East Kalimantan Papua	East Nusa Tenggara West Nusa Tenggara		South Kalimantan North Sulawesi South Sulawesi	Central Kalimantan Central Sulawesi West Kalimantan Southeast Sulawesi Maluku

Source: Hill and Weidemann (1991), p. 4.

Table 5 . Summaries of West and East Indonesia statistics

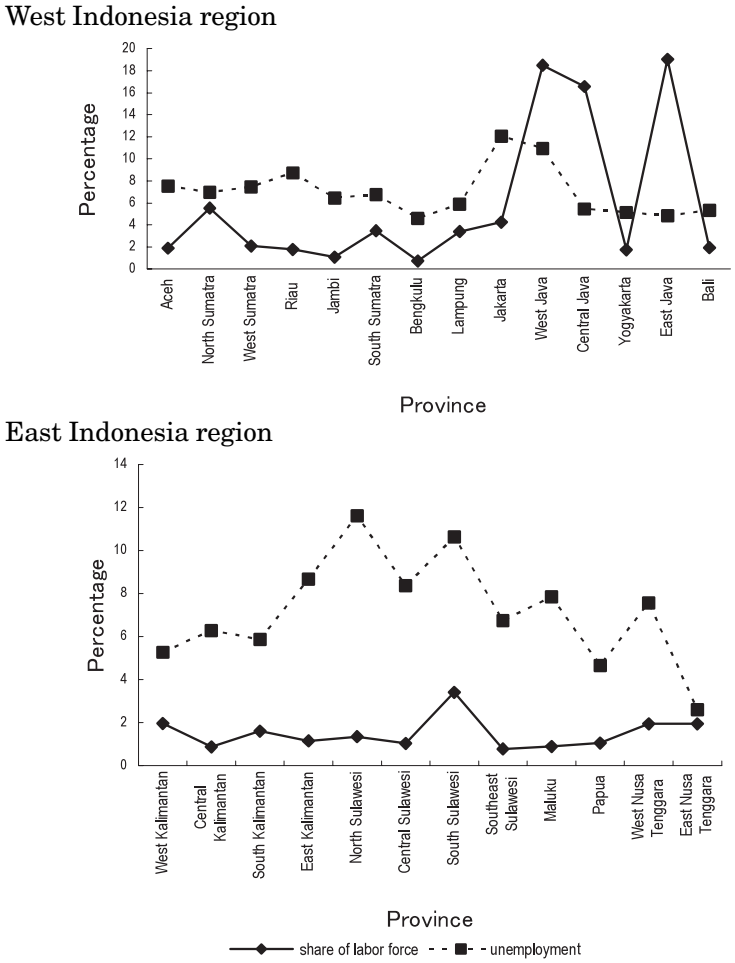
	East Indonesia	West Indonesia
Area	68%	32%
Population (1999)	20%	80%
Population density (per km^2 in 1999)	29	n.a.
Human Development Index (1999)	62.9	n.a.
GDP contribution (2000)	19%	81%
Per capita GRDP (2000-in rupiah)	2,037,781	1,947,758
Per capita GRDP non-oil & gas (2000-in rupiah)	1,748,737	1,799,251
Percentage of investment (2003)	15%	85%
Development budget (based on DIP*2003)	18%	82%

Source: Development Council for Eastern Indonesia (DP-KTI) Decree No. 1 of 2002, Attachment p. 2.
*DIP (*Daftar Isian Proyek*) is a fund allocation from the national budget (APBN) to sectoral ministries.

Actually, compared to West Indonesia, East Indonesia is endowed with large-scale agriculture, forestry, plantations, oil, natural gas and some mining. Due to a lack of infrastructure, human resources, management and capital funds, however, the potential resources of East Indonesia have not been exploited as well as those in West Indonesia.

Takeda and Nakata (1998) found a significant positive correlation between infrastructure development (such as electric power, waterworks and telephone lines) and the growth of per capita GRDP. Furthermore, they argue that the level of infrastructure development is a factor that effects regional economic development. To examine regional economic disparities further, they analyzed the impact of government policies on regional development funds and fiscal transfers on per capita GRDP.

Figure 1. Share of labor force and unemployment (%)



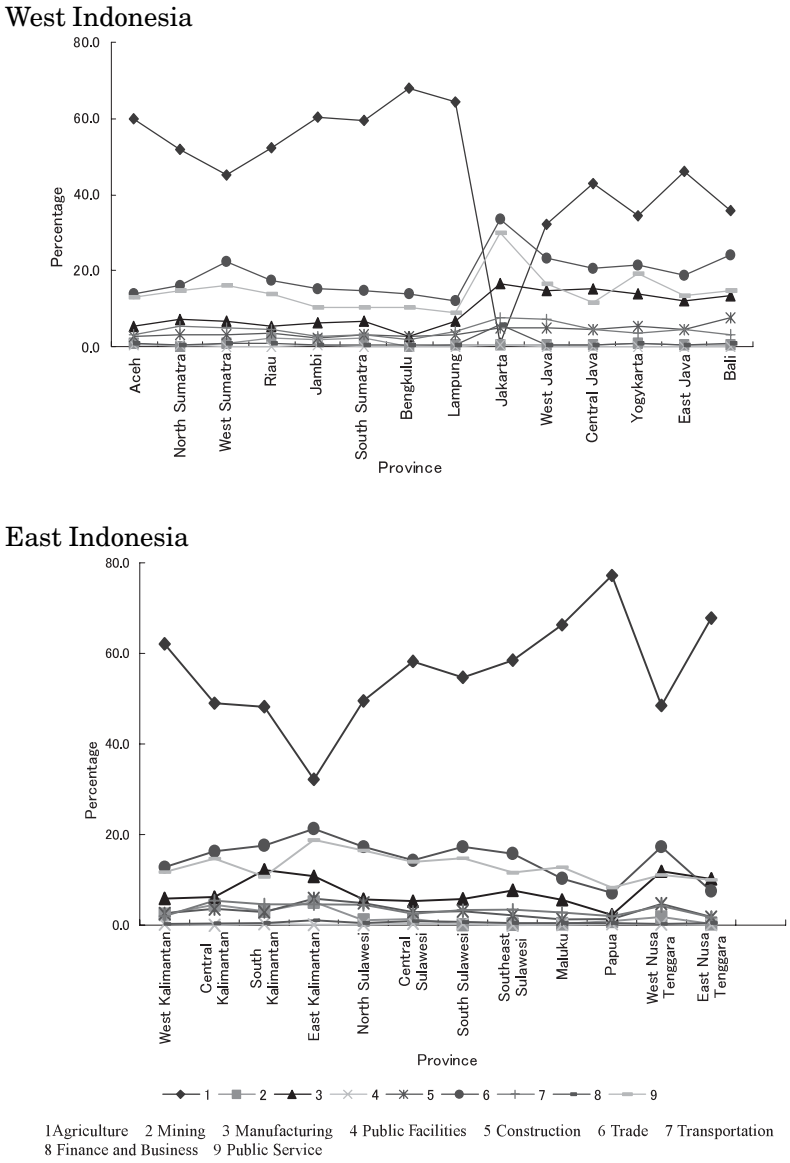
Source: Central Bureau of Statistics (1999), *Keadaan Angkatan Kerja Indonesia, August 1998*, p. 54.

Another problem in East Indonesia is human resource deficiencies, in terms of both quantity and quality (Figure 1). In addition to both foreign and domestic investment capital, investment in human resources is definitely required to promote regional development. As shown in Table 5, differences in the share of population between West and East Indonesia contrast with those of land territory. Based on statistical data in 1995, West Indonesia accounts for 82% of the total labor supply, while East Indonesia accounts for 18%. The largest share of the labor force is in West Java, Central Java and East Java. This reflects the population of the Java region, which accounts for more than half of Indonesia's total population. Jakarta, with a 4% share of the labor supply, accounts for 12% of total unemployment.

According to Figure 1, the low numbers for East Indonesia's labor force are accompanied by unemployment ranging from 2% to 12%. The largest share of the labor force was in South Sulawesi (4%), and the other regions ranged between 1% to 2% or less. This condition is related to the lack of em-

ployment opportunities, particularly in East Indonesia, which is the result of insufficient educational attainment (See Garcia and Soelistianingsih, 1998).[5)]

Figure 2. Share of employment by industry



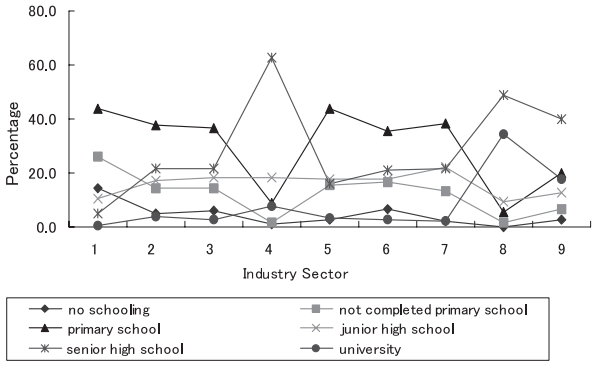
1Agriculture 2 Mining 3 Manufacturing 4 Public Facilities 5 Construction 6 Trade 7 Transportation 8 Finance and Business 9 Public Service

Source: Same as Figure 1, p. 243.

[5)]Garcia and Soelistianingsih analyzed the evolution and distribution of welfare for the years of 1983-1993. They argued that investments in human capital such as education and health would improve per capita GRDP.

Turning to employment, industrialization in Indonesia has in fact absorbed a huge supply of labor, particularly blue-collar workers. However, this trend has not spread equally across the country, and the industrial sector in Indonesia has been concentrated in some regions, such as most provinces in Java (except Yogyakarta[6]), Sumatra, East Kalimantan, and South Sulawesi (Figure 2). Employment in both of West and East Indonesia mostly shows a similar pattern (except Jakarta); the agriculture sector has dominated the numbers of employed, followed by trade and other services. The data also show that the agriculture sector is still dominated by low-educated labor (Figure 3). In contrast, the manufacturing, finance & business and other service sectors are dominated by higher-education labor.

Figure 3. Share of educational attainment, by industry (1998)



1Agriculture 2 Mining 3 Manufacturing 4 Public Facilities 5 Construction 6 Trade 7 Transportation 8 Finance and Business 9 Public Service

Source : Same as Figure 1, p. 126.

3. Government Policies for Reducing the Economic Development Gap between West and East Indonesia

More than 25 years after independence, Indonesia has undergone spectacular economic development that has brought the country out of the low-income country group and into the ranks of mid-low-income countries. In achieving this economic level, the important roles of the Five-Year Development Plan (*Rencana Pembangunan Lima Tahun, Repelita*) implemented since 1969, and a set of related policies (for example, the *Inpres*[7] program) are undoubtedly significant.

While Indonesia has succeeded in increasing economic productivity and per capita GRDP, many obstacles remain to be tackled by the government, par-

[6]Yogyakarta is one of Indonesia's special regions. Unlike the four other provinces (Jakarta, West Java, Central Java and East Java), although it is also located on Java island, its contribution to GDP is insignificant (Soenandar, 2004).

[7]The *Inpres* (*Instruksi Presiden*) program was a government effort to reduce the gap among regions. The program was initially implemented in 1969. It is a fund allocation from the central government to local governments (Uppal and Budiono (1986) and Azis (1990)).

ticularly to cope with the disparity between West and East Indonesia. As a matter of fact, the government has introduced some policies to accelerate the development of Eastern Indonesia. These have been implemented since the early 1990s and are marked by the inclusion of an essence of acceleration of Eastern Indonesian development in the 1993-State Policy Guideline (*Garis Besar Haluan Negara*, GBHN). Although the policies have been geared toward GNP growth, the overall living standard of the Indonesian population has not yet improved.

To overcome this problem, since Suharto's New Order Regime (1966-1998) in 1993, the government has taken strategic moves to even out national development by implementing a program called "Acceleration of Eastern Indonesian Development (PP-KTI[8])". According to Decree of the Development Council for Eastern Indonesia (DP-KTI)[9] No. 1 of 2002 on the National Policy and Strategy for Acceleration of Eastern Indonesian Development (hereinafter referred to as "*Jakstranas* PP-KTI[10]"), Acceleration of Eastern Indonesian Development basically encompasses four priorities, namely to (1) reduce regional inequality, (2) improve the welfare of local people, (3) prepare Eastern Indonesia for free trade, and (4) preserve the unity of the country. Those efforts are implemented in five development sectors: human resources, economy, infrastructure, institutions, and incentives. To attain all these goals, this program was manifested by establishing the Development Council for Eastern Indonesia (DP-KTI) in 1993, followed by the creation of KAPETs in 1996 and the Development Body of KAPET (*Badan Pengembangan* KAPET) in 2000. To support these organizations and actions, the government established the State Minister of Acceleration of Eastern Indonesian Development in 2000.

The Development Council for Eastern Indonesia (DP-KTI) was launched through Presidential Decree (*Keppres*[11]) No. 120 of 1993, which has since undergone several changes and revisions.[12] The decree was subsequently augmented by launching Presidential Decree No. 55 of 2001 and No. 44 of 2002. According to Presidential Decree No. 44 of 2002, the Development Council for Eastern Indonesia (DP-KTI) is a central-level council comprised of several ministers, over which the State Minister of Acceleration of Eastern Indonesian Development sits as the executive director (Exhibit 1), and has the authority and responsibility to formulate and establish strategic policies and priority programs for improving Eastern Indonesia's development.

KAPET was established as a follow up to the creation of Development Council for Eastern Indonesia (DP-KTI). As stated in Presidential Decree No. 89 of 1996, which was later replaced by Presidential Decree No. 150 of 2000, KAPET is designed as a growth center for the region and prime over for hinterland areas. The decree stated that a KAPET is selected based on geo-

[8] PP-KTI refers to *Percepatan Pembangunan-Kawasan Timur Indonesia*. (KTI = eastern Indonesia).

[9] DP-KTI refers to *Dewan Pengembangan* KTI.

[10] *Jakstranas* PP-KTI refers to *Kebijakan dan Strategi Nasional* PP-KTI.

[11] *Keppres refers to Keputusan Presiden.*

[12] It was revised by Presidential decree No. 27 of 1994, 54 of 1995, 75 of 1998, and 173 of 1998.

graphical borders with the follow conditions: (1) having potential for rapid growth and/or (2) having leading sectors capable of boosting the economic growth of hinterland areas and /or (3) offering potential for large investment returns.

Management of KAPET at the central level is conducted by the Developing Body (*Badan Pengembangan*) of KAPET. This consists of several ministers, with the Coordinating Minister for Economic Affairs as chairman and the Minister of Settlement and Regional Infrastructure (*Kimpraswil*) as executive director (Exhibit 1). This body is responsible for policy implementation and coordination. To manage a KAPET at the regional level, the Managing Bodies (*Badan Pengelola*) of KAPET have been formed with local governors as chairmen, represented by an executive director whose task is to manage the KAPET professionally, and assisted by a technical team headed by the Minister of Acceleration of Eastern Indonesian Development as the supervisor at the central level.

All of the above strategic policies subsequently are pursued under related operational policies, such as Government Regulation (PP[13]) No. 20 of 2000 supported by Finance Minister Decree (*Kep. Menkeu*[14]) No. 200／KMK. 04／2000 concerning the implementation of incentives in KAPET and, to achieve the aims of Acceleration of Eastern Indonesian Development (PP-KTI) effectively, through Decree of Development Council for Eastern Indonesia (DP-KTI) No. 1 of 2002 the National Policy and Strategy for Acceleration of Eastern Indonesian Development (Jakstranas), supported by Presidential Instruction No. 7 ／2002 for its implementation.

The *Jakstranas* PP-KTI is comprised of two targets, both short-term (up to 2004) and long-term (up to 2010). For example, the short-term target is focused on bringing the percentage of per capita GDP and the HDI closer to the national average, a 20% share of total national investment, and a 20% share of the export level. As long-term targets, the purchasing power of local citizens is expected to climb above the national average, the HDI at expected to equal the national average level, and both total investment and exports are expected to be at least 20% of the country's total investments and exports. Jakstranas has also formulated 31 priority programs: nine programs in human resources, six programs in economics and natural resources, 11 programs in facilities and infrastructures, and five programs in institutional sectors.

Up to now, according to the report of Ministry of Acceleration of Eastern Indonesian Development (2003) on each KAPET, this program has not worked well. Good coordination between the central and the local government and even, among related departments both at the central and the local levels is required to achieve the goals of this program.

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[13] PP= *Peraturan Pemerintah.*

[14] *Kep. Menkeu refers to Keputusan Menteri Keuangan.*

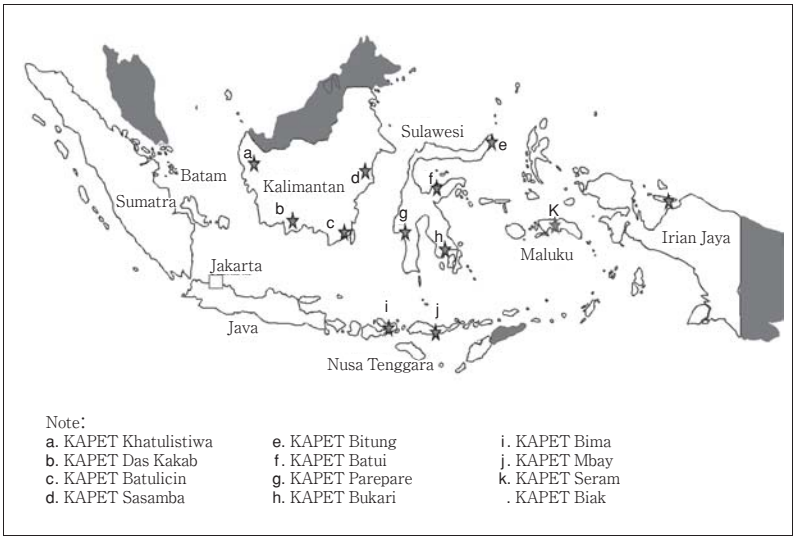
4. Integrated Economic Development Zone (KAPET)

4.1 Challenges and problems

Since Presidential Decree No. 89 of 1996 was launched, 12 KAPETs[15] (Figure 4) have been established in the eastern Indonesia region through several decrees. These consist of four KAPETs in Kalimantan (namely, Batulicin, Khatulistiwa, Das Kakab, Sasamba[16], four KAPETs in Sulawesi (Batui, Parepare, Bukari, Bitung[17]), two KAPETs in Nusa Tenggara (Bima and Mbay[18]), one KAPET in Maluku (Seram[19]) and one KAPET in Papua (Biak[20]).

According to the report conducted by the executive director of the Development Council of Acceleration of Eastern Indonesian and the Developing Body of KAPET six KAPETs (Sanggau, Batulicin, Parepare, Bukari, Bitung and Biak) showed optimal performances but the remaining six KAPETs (Bima, Mbay, Kolaka, Seram, Batui, and Das Kakab) were still behind their objectives (Financial and Development Supervisory Board, 2003, p. 5). The investigation of the KAPETs' performance is used as a basis to evaluate the target achievements of KAPET by Ministry of Acceleration of Eastern Indonesian Development.

Figure 4. KAPETs locations in Eastern Indonesia



[15] KAPET consists of 12 KAPET in East Indonesia and one KAPET in West Indonesia. All 12 KAPETs encompass 51 areas: 15 areas in Kalimantan, 16 areas in Sulawesi, four areas in Maluku, nine areas in Papua, and seven areas in Nusa Tenggara (three areas in West Nusa Tenggara and four areas in East Nusa Tenggara).

[16] Presidential Decree No11, 12, 13, and 170 of 1998.

[17] Presidential Decree No14, 164, 167, and 168 of 1998.

[18] Presidential Decree No. 15 and 166 of 1998.

[19] Presidential Decree No. 165 of 1998.

[20] Presidential Decree No. 90 of 1996 (revised by Presidential Decree No. 10 of 1998).

Entrepreneurs who do business within KAPET will be supported by the government with both fiscal and non-fiscal incentives. The aim is to stimulate private investments, particularly for small and medium enterprises (*Usaha Kecil Menengah*, hereinafter referred to as "SMEs") in East Indonesia. As stated in Government Regulation No. 20/2000 in April 2000 (Republic of Indonesia, 2000) entrepreneurs who run businesses within a KAPET will receive a partial tax holiday, including (1) a net income tax reduction of 30% of total invested capital, (2) alternative choices for applying depreciation and/or accelerated amortization (Exhibit 2), (3) fiscal loss compensation for the following fiscal year for a maximum of 10 consecutive years, and (4) a 10% income tax on dividends for foreign taxpayers, or the lowest tariff based on a double taxation avoidance agreement. The incentives were changed after June 2000, however, due to Government Regulation No. 20/2000 (Republic of Indonesia, 2000) supported by Finance Minister Decree No. 200/KMK. 04/2000 (Ministry of Finance, 2000). These changes showed that government implementation of tax policy has been inconsistent, and this has been noted as one constraint for KAPETs.

To adjust the management of KAPET under Law (*Undang-undang, UU*) No. 22 of 1999 concerning regional autonomy and Government Rule No. 25 of 1999 (Republic of Indonesia, 1999) concerning the revenues allocation act, Presidential decree No. 150/2000 stated that KAPETs are managed by local governments with the governors as chairmen of the Managing Bodies of KAPET. The KAPETs have encountered problems with regional governments, inconsistency in incentive treatment, and lack of financial support. This seems to conflict with policy implementation of development activities in KAPETs, which are organized by the central government.

All operational costs of KAPET Development and Management Bodies are imposed in the State Budget (APBN[21]). KAPET management and development costs were being paid not only from the State Budget, but also from the Regional Budget (APBD[22]) and other valid statutory sources. Since the implementation of regional autonomy, however, fund allocation for KAPETs is no longer supported by the State Budget. Because of this change, local governments need to consider which financial sources can support the KAPET programs.

Regional autonomy also raises the problem of management control of KAPETs. Through regional autonomy implementation, the control of KAPETs automatically will be transferred to the local government from the central government. Therefore the ability of local governments to manage the KAPETs needs to be evaluated.

The most important activity for a KAPET is to support local industries. Table 6, based on responses to a questionnaire conducted by the Ministry of

[21] APBN is referred to *Anggaran Pendapatan dan Belanja Negara* (Annual State Budget Revenue and Expenditure).

[22] APBD is referred to *Anggaran Pendapatan dan belanja Daerah* (Regional Budget Revenue and Expenditure).

Acceleration of Eastern Indonesian Development (2003), shows the role of KAPETs for SMEs in local industries. The table shows clearly that the role of KAPETs is still far from the expected target for all sectors in each region. In KAPET Bima, for example, although the Ministry received positive responses to the questionnaire, the results (ratio of positive responses to total number of questions) showed an only slightly better than 50% achievement for all targets. Therefore the socialization of KAPETs needs to be introduced further to local communities, in order for local people to benefit from the KAPET both in services and facilities.

Table 6. Role of KAPET for local industries, based on questionnaire responses

KAPET	A X (Y)	B X (Y)	C X (Y)	D X (Y)	E X (Y)
KAPET Khatulistiwa	4 (21)	0 (25)	4 (21)	5 (20)	5 (20)
KAPET Das Kakab	0 (30)	30 (30)	2 (30)	30 (30)	n.a.
KAPET Batulicin	7 (44)	0 (44)	15 (44)	17 (44)	21 (44)
KAPET Sasamba	17 (30)	14 (30)	12 (30)	7 (30)	5 (30)
KAPET Bitung	11 (25)	8 (25)	8 (25)	13 (25)	12 (25)
KAPET Batui	8 (25)	8 (25)	8 (25)	8 (25)	8 (25)
KAPET Parepare	13 (35)	8 (35)	15 (35)	8 (35)	12 (35)
KAPET Bukari	10 (25)	17 (25)	17 (25)	10 (15)	8 (25)
KAPET Bima	18 (27)	20 (27)	21 (27)	20 (27)	18 (27)
KAPET Mbay	2 (25)	10 (25)	5 (25)	5 (25)	3 (25)
KAPET Seram	n.a.	n.a.	n.a.	n.a.	n.a.
KAPET Biak	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Ministry of Acceleration of Eastern Indonesia Development (2003), p. 7, 17, 27, 36, 44, 52, 58, 67, 80, 89.

Note: A= Socialization of KAPET, B= Having benefit doing business in KAPET, C= KAPET services, D=KAPET promotion of SMEs activity, E=Response of BP-KAPET on complaints from SMEs.

X=Positive responses

Y= Total questionnaires

Besides the goal of promoting investment in the KAPET areas, KAPETs are designed to support and encourage the rise of SMEs. As shown in Figures 2 and 3, the quality of human resources is still low in most of the East Indonesian regions, which hinders SMEs development. For example, SME participants need adequate knowledge concerning business management, financing and technology. For these reasons, the Managing Bodies of KAPET have the important function of facilitating SMEs with counseling and assistance, such as administering licenses for developing new SMEs and assisting applications for bank credit to make operating a SME easier.

Unavailable and/or poor infrastructure and facilities are considered the major constraint faced by KAPETs. Mostly KAPETs are located in a municipality/regency that is far from the main city of the province, and lack infrastructure hubs. In this case the facilities are not limited to roads, ports and airports that are of concern merely to facilitate investors; there is also a need

for social infrastructure such as housing, transportation, public health centers, clean water supply, and education.

4.2. Case studies of KAPET Parepare and KAPET Bima

KAPET Parepare was established based on Presidential Decree No. 164 of 1998. It is located in South Sulawesi and comprises an area of around 6,905 km^2 (11% of the total land area in South Sulawesi). The KAPET consists of the municipality of Parepare and 4 regencies (Barru, Sidrap, Pinrang and Enrekang) with a total population of 976,063 people and population density of 141 people per km^2 (Table 7). Infrastructure in the KAPET area includes six ports and 3,099.6km of roads. Of total road length, the conditions are 45.3% good, 38.4% poor and 25.2% substandard.

Table 7 . Statistical summary of KAPET Parepare

Municipality/regency	Parepare	Barru	Sidrap	Pinrang	Enrekang	Total
Area (km^2)	99.33	1174.72	1883.25	1961.77	1786.01	6905.07
Population (people)	108,132	151,240	246,084	309,876	160,731	976,063
Population density (people per km^2)	1,089	129	131	158	90	141
Road length (km)	285.55	590.1	1,042	654.66	527.27	3,099.6
Ports	3	1	–	2	–	6

Source: Same as Table 6, p. 3, 5.
Note: Based on KAPET Parepare data base for December 2000.

The KAPET office is located in Parepare municipality, which is administered by the governor of South Sulawesi as chairman. All activities are managed by the vice chairman as executive/general director, assisted by four related directors who supervise 15 divisions. According to data obtained through an interview with the general director, KAPET Parepare employs 46 people, including 10 local government officers (*Perbantuan Pemda*) and 36 contract employees. In terms of educational attainment, two employees have post-graduate training, 35 employees have undergraduate degrees, eight employees are senior high school graduates and one employee is a junior high school graduate (Table 8).

Table 8 . Number of the Managing Bodies of KAPET Parepare employees and educational background

	Number of employees	Education background			
		Post graduate	Undergraduate	High school	
				Senior	Junior
Local government officer (perbantuan pemda)	10	2	7	–	1
Contract officer	36	–	28	8	–

Source: The present author's survey (May, 2004).

KAPET Parepare consists of 3,349 small-scale industries and 2,074 informal sectors (54% of the SMEs with legal entity status, comprised of 37% cooperation, 11% incorporation and 6% corporation). From Table 6, however, it can be seen that the role and function of KAPET Parepare has not been favorable for SMEs.

Market destinations for KAPET Parepare are classified into domestic, inter-island and international. Export activity is concentrated in one port harbor in Parepare municipality, with Singapore as the main international destination. To raise the level of both local and foreign investment, KAPET Parepare has implemented non-fiscal and fiscal incentives. Non-fiscal incentives consist of a one roof service program: simplified procedures for obtaining licenses, land use, security in law, and safety. These involve each local government leader in conveying the annual program in the KAPET, and gathering data and saving funds for SMEs through Regional Budget Revenue and Expenditure. Fiscal incentives have been implemented as stated in the previous section.

Like KAPET Parepare, KAPET Bima was also established through a Presidential Decree (No. 166 of 1998). KAPET Bima is located in the eastern part of West Nusa Tenggara, exactly in the center of Sumbawa Island, which consists of the regencies of Bima and Dompu, and covers an area of 6,921.45 km^2 with a total population of 706,020 people and population density of 102 people per km^2. The infrastructure in KAPET Bima includes four small port harbors, one small airport, and 2,873.79km of total road length (Table 9).

Table 9. Statistical summary of KAPET Bima

	Dompu	Bima	Total
Area (km^2)	2,324.55	4,596.90	6,921.45
Population (people in 2002)	189,214	516,806	706,020
Population density (2002)	81	112	102
Road length (km)	1,963.27	910.52	2,873.79
Port harbors	2	2	4
Airports	–	1	1

Source: Same as Table 6, p. 47, 49.

Note: Based on Central of Bureau Statistics West Nusa Tenggara Office, *Nusa Tenggara dalam angka 2002*.

Unlike KAPET Parepare, KAPET Bima is operated from two offices, one located in Mataram as the central office and another located in Raba, Bima. KAPET Bima is administered by the governor of West Nusa Tenggara, but all activities are represented by a vice chairman who also acts as an executive director, assisted by four related directors. The Managing Bodies of KAPET Bima has 40 employees (including six persons as a professional team), including 10 local government officers (from Pemda and others), five pensioners, and 25 contract employees (mostly pensioner). Of the total employees, 15 people are assigned to the Mataram office and the others are at the Raba Bima office. KAPET Bima helps the government sector stimulate private investments with

both non-fiscal incentives and fiscal incentives. In addition, KAPET Bima also intends to push the development of local investment and SMEs. Based on a report obtained from the Ministry of Acceleration of Eastern Indonesia Development, the SMEs in KAPET Bima consist of 2,796 small-scale industries, of which 2,033 SMEs are individual business. Moreover, as shown in Table 6, the existence and functions of the KAPET still are not viewed as beneficial by the SMEs.

KAPET Bima provides some facilities to attract investment. Compared to the other 11 KAPETs, however, it is still categorized as an abandoned KAPET. If compared to KAPET Parepare, which supports inter-island and international trade and provides a container port, KAPET Bima is involved only in inter-island trade and the products of the SME are still local market oriented. Moreover, the location of KAPET Parepare is directly connected to the capital city of South Sulawesi (Makasar), while KAPET Bima is located in distant suburb area of Sumbawa Island. KAPET Parepare also benefits from the industrial estate of KIMA (*Kawasan Industri Makasar*) in Makasar City.

Table 10. Relationship between KAPETs and infrastructure

Province/regency	KAPET	Industrial Estate	Port*	International Airport
East Indonesia				
W Kalimantan	Khatulistiwa	N	Y	N
S Kalimantan	Batulicin	N	Y	N
E Kalimantan	Sasamba	Y	Y	Y
C Kalimantan	Das kakab	N	Y	N
C Sulawesi	Batui	N	N	N
Se Sulawesi	Bukari	N	N	N
N Sulawesi	Bitung	N	Y	Y
S Sulawesi	Parepare	Y	Y*	Y
W Nusa Tenggara	Bima	N	N	N
E nusa Tenggara	Mbay	N	Y	N
Maluku	Seram	N	Y	N
Papua	Biak	N	Y	N

Source: Web site of Indonesia's Investing Coodinating Board,
http: //www.bkpm.go.id/en/business, accessed date October 10th, 2004
Note: N: Unavailable Y: Available
*Main port provided with large container capacity.

Table 10 shows the relationship between infrastructure and KAPETs. For several regions in West Indonesia, the existence of industrial estates has stunted economic growth and people's incomes. With good social and physical infrastructure, the areas connected by industrial estates have faster growth than those with non-industrial estates. Therefore the KAPETs linked to the industrial estates are much better managed than the other KAPETs. Of the twelve KAPET locations in East Indonesia, few areas are reported to be func-

tioning actively in serving the city and hinterlands, such as the KAPET in Parepare (South Sulawesi), Sasamba and Bitung (Evans and Munir, 2002, Sondakh 2003).

5. Conclusion

As a government policy for solving uneven regional development between West and East Indonesia, this paper evaluates the current KAPETs performance. Unsuccessful KAPET programs have been found in most regions, indicating that KAPETs have not been well managed consistently. In addition, KAPETs have created various efforts in each region, depending on the location, infrastructures and facilities. Inadequate human resources, both in quality and quantity, also affect KAPET performance. Since investors tend to be attracted by good infrastructure, including transportation hubs, local governments must assist their areas by providing sufficient infrastructure.

To push the development of East Indonesia, the government has in fact undertaken a good policy by providing the Acceleration of Eastern Indonesia Development (PP-KTI) program, which covered establishment of the 12 KAPETs to stimulate investment flow and small-scale industry growth in the regions. To develop the KAPETs the government must be committed and consistent in managing the KAPET program, by considering the professionalism of KAPET management. The central and local governments can hire professional teams that are responsible to the government. For example, an expert in investment and business rule and strategy to help investors, both foreign and domestic, and further to support SMEs in fostering their business. Only then can the program be expected to increase per capita GRDP and bring equality in income and development between West and East Indonesia.

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Acknowledgments

The author gained enormously thoughtful comments and suggestions provided by Professor Kensuke Miyamoto of Hokkaido University and Associate Professor Tetsuhiko Takai of Hokkaido University on an earlier version of this paper.

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Exhibit 1. Structure of The Development Council of Eastern Indonesia (DP-KTI) and The Managing Bodies of KAPET (DP-KAPET) management

	The Development Council of Eastern Indonesia (Presidential Decree No. 44／2002)	The Managing Bodies of KAPET (Presidential Decree No. 150／2000)
Chairman	President of Republic Indonesia	–
Executive Director	State Minister for the Acceleration of Development of Eastern Indonesia	Coordinating Minister for Economic Affairs
Vice Executive Director	State Minister Research and Technology	Minister of Settlement and Regional Infrastructure
Member	1. Minister of Home Affairs 2. Minister of Finance 3. Minister of Transportation 4. Minister of Maritime and Fisheries Affairs 5. Minister of Agriculture 6. Minister of National Education 7. Minister of Energy and Mineral Resources 8. Minister of Forestry 9. State Minister/Head of the National Development Planning Board 10. State Minister for Revenues and State Companies 11. Chairman of the National Investment Coordinating Board 12. Local Governors	1. Minister of Finance 2. Minister of Agriculture and Forestry 3. Minister of Trade and Industry 4. Minister of Transportation and Telecommunications 5. Minister of Fisheries and Maritime Affairs 6. Minister of Energy and Mineral Resources 7. Minister of Home Affairs and Regional Autonomy 8. State Minister for Culture and Tourism 9. Minister for the Acceleration of Development of Eastern Indonesia 10. Chairman of the National Land Agency
General Secretary	Professional staff of State Minister of National Development Planning, Department of PPKTI and Abandoned Areas	Head of the National Development Planning Board
Vice of General Secretary	Secretary of State Minister for the Acceleration of Development of Eastern Indonesia	
Job description	1. Gather concepts and ideas from related parties concerning the formulation of strategic policies and priority programs of PPKTI 2. Consider the potential for development of eastern Indonesia 3. Formulate and establish the strategic policies and priority programs and to establish the phase and priority of development of eastern Indonesia 4. Evaluate the strategic policies and priority programs that have been completed or are being carried out by related institutions 5. Manage the information systems of eastern Indonesia	1. Provide suggestions to the President concerning KAPET establishment, taking into consideration suggestions from the related-local governor 2. Formulate and establish the policy and national strategy to accelerate KAPET's development 3. Formulate essential policies to escalate and accelerate the flow of investment into KAPET 4. Coordinate the assembling and enforcement of activity planning for KAPET development 5. Facilitate the enforcement of KAPET activities
Fund sources	National Budget (APBN)	National Budget (APBN), Local Budget (APBD)

Source: Presidential Decree No. 44 of 2002 and Presidential Decree No. 150 of 2000.

Exhibit 2 . Depreciation and amortization calculation

Physical assets	Useful life (years)	Straight line method (%)	Declining Balance method (%)
a. Non-building assets/Intangible assets :			
Group I	2	50	100
Group II	4	25	50
Group III	8	12.5	25
Group IV	10	10	20
b. Building assets			
Permanent group	10	10	0
Non-permanent group	5	20	0

Source: Republic of Indonesia (2000) and Ministry of Finance (2000).