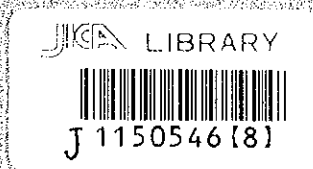


JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)
NATIONAL DEVELOPMENT PLANNING AGENCY (BAPPENAS)
THE GOVERNMENT OF REPUBLIC OF INDONESIA

**THE DEVELOPMENT STUDY ON COMPREHENSIVE
REGIONAL DEVELOPMENT PLAN FOR
THE WESTERN PART OF KALIMANTAN
SCRDP-KALTENGBAR**

FINAL REPORT

**VOL.4
SECTOR PLANS (1)**



MARCH 1999

**PACIFIC CONSULTANTS INTERNATIONAL
INTERNATIONAL DEVELOPMENT CENTER OF JAPAN**

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The exchange rates applied in this study are:

MONTH	Rupiah/US\$
March-1997	2,399
April-1997	2,412
May-1997	2,434
June-1997	2,428
July-1997	2,509
August-1997	2,735
September-1997	2,994
October-1997	3,566
November-1997	3,448
December-1997	4,798
January-1998	9,743
February-1998	9,045
March-1998	9,536
April-1998	8,057
May-1998	10,079
June-1998	13,532
July-1998	13,996
August-1998	12,127
September-1998	11,033
October-1998	8,567
November-1998	7,785
December-1998	7,630
January-1999	7,978

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ABBREVIATION AND GLOSSARY

Adat	Customary law
ADB	Asian Development Bank
AIDA	Australia Indonesia Development Area
Alang-alang	<i>Imperata cylindrica</i> grassland
AFTA	ASEAN Free Trade Area
APBD	Anggaran Pendapatan dan Belanja Daerah, Provincial or district Budget
APBN	Anggaran Pendapatan dan Belanja Negara, National Budget
APPKD	Anggaran Penerimaan dan Pengeluaran Kas desa, Village Budget
ASEAN	Association of South East Asia Nations
Bangda	Direktorat Jenderal Pembangunan Daerah, Directorate General for Region Development, Ministry of Home Affairs
Bangdes	Direktorat Jenderal Pembangunan Desa, Directorate General for Village Development, Ministry of Home Affairs
Bappenas	Badan Perencanaan Pembangunan Nasional (National Development Planning Agency, Indonesia)
Bappeda	Badan Perencanaan Pembangunan Daerah (Regional Development Planning Agency)
BIMP-EAGA	Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area
BKKBN	Badan Koordinasi Keluarga Berencana Nasional (National Family Planning Coordinating Board)
BKPM	Badan Koordinasi Penanaman Modal (Capital Investment Coordinating Board)
BPN	Badan Pertanahan Nasional (National Board of Land Affairs)
BPS	Biro Pusat Statistik (Central Bureau of Statistics, Indonesia)
BRI	Bank Rakyat Indonesia (Indonesian People's Bank)
Bulog	Badan Urusan Logistik (State Logistics Board with special responsibility for food procurement)
Bupati	Administrative head of a district (kabupaten)
Camat	Administrative head of a subdistrict (kecamatan)
Cipta Karya	Directorate General of Human Settlements, Ministry of Public Works
CPO	Crude Palm Oil
Crude Birth Rate	The annual number of births per 1,000 persons
Damar	Resin
Desa	Administrative village
Dinas	Office of Provincial Government
DPR	Dewan Perwakilan Rakyat (House of People's Representatives)
DPRD	Dewan Perwakilan Rakyat Daerah (Regional House of People's Representatives)
Dusun	Subvillage, hamlet (part of desa)
EPI	Expanded Program of Immunization
GBHN	Garis-garis Besar Haluan Negara (Broad Guidelines for State Policy)

GDP	Gross Domestic Product
GNP	Gross National Product
GRDP	Gross Regional Domestic Product
GTZ	Gesellschaft fur Technische Zusammenarbeit (German Agency for Technical Cooperation)
HPH	Hak Pengusahaan Hutan (Timber Concession)
HTI	Hutan Tanaman Industri (Industrial Tree Plantation)
IDT	Inpres Desa Tertinggal (Backward Village Program)
IMF	International Monetary Fund
Inpres	Instruksi Presiden (Presidential Instruction, a program of special grants from the central government)
Inpres program	Central government subsidies to regional government (province, kabupaten and villages) for various kinds of infrastructure development and for the construction of primary schools and health centers
IPK	Izin Pemanfaatan Kayu (Wood Utilization Permit)
JICA	Japan International Cooperation Agency
Kabupaten	District or regency, administrative unit below the province
KADIN	Kamar Dagan dan Industri Indonesia (Chamber of Commerce and Industry)
Kampung	Hamlet, traditional settlement unit in parts of Kalimantan
Kantor dinas	Department under provincial governor's office
Kanwil	Kantor Wilayah (Regional Office, a line regional agency of a ministry)
Kebun karet rakyat	Rubber grove established by farmers, or so-called jungle rubber grove
Kecamatan	Subdistrict, administrative unit below the district (kabupaten)
Kelurahan	Urban village
Kepala desa	Village head
KUD	Koperasi Unit Desa (Village Unit Cooperative)
Kukesra	Kredit Usaha Keluarga Sejahtera (small-business credit component for Family Prosperity Development Program)
Ladang	Dry field
LKMD	Lembaga Ketahanan Masyarakat Desa (Village Community Development Institution)
LMD	Lembaga Musyawarah Desa (Village Council)
LNG	Liquid Natural Gas
NES	Nucleus Estate and Smallholder's integration scheme
NGO	Non Government Organization
Paduserasi	Synchronization procedure of provincial landuse plans.
Pancasila	Five philosophical principals that constitute the official national ideology
Pasar	Market place
PBB	Pajak Bumi dan Bangunan (land and building tax which has replaced the old lan tax, Ipeda)
PCM	Project Cycle Management, an objectis-oriented planning method adopted by JICA, a similar method to ZOPP
PIR	Perkebunan Inti Rakyat (nucleus-smallholders plantation scheme)
PJP II	Pembangunan Jangka Panjang II (Second Long-Term Development, 1994-2019)

PKK	Pembinaan Kesejahteraan Keluarga (Family Welfare Education Movement)
Posyandu/Pelayanan	Pos Terpadu (Integrated Health Service Delivery Post), a once a month health care center which provides maternal and child health, as well as family planning services
PMD	Pembangunan Masyarakat Desa (former Bangdes), Directorate for Community Development, Ministry of Home Affairs
Prokasih	Program Kali Bersih (Clean river program for urban rivers)
PT	Perseroan Terbatas (limited liability company)
PTP	Perseroan Terbatas Perkebunan (limited liability estate company)
Puskesmas	Pusat Kesehatan Masyarakat (subdistrict Health Center)
P5D	Pedoman Penyusunan Perencanaan dan Pengendalian Pembangunan Daerah, 1982 regulation on bottom-up planning
Rakorbang	Rapat Koordinasi Pembangunan (development planning coordination meeting)
Repelita	Rencana Pembangunan Lima Tahun (National Five-year Development Plan)
Repelitada	Rencana Pembangunan Lima Tahun Daerah (Regional Five-year Development Plan)
RePPPProT	Regional Physical Planning Project for Transmigration
SALCRA	Sarawak Land Consolidation and Rehabilitation Authority
Sawah	Irrigated rice field
Sakernas	Survei angkatan Kerja Nasional (National Labor force Survey)
SCRDP-Kaltengbar	JICA Study Project, Development Study on Comprehensive Regional Development Plan for the Western Part of Kalimantan covering West Kalimantan (Kalbar) and Central Kalimantan (Kalteng)
SIJORI growth triangle	Singapore-Johor-Riau growth triangle
SME	Small and Medium Enterprise
SSE	Small Scale Enterprise
Susenas	Survei Sosial Ekonomi Nasional (National Socioeconomic Survey)
Swidden agriculture	Indigenous people's cyclic agriculture, shifting cultivation or slash and burn agriculture
Takesra	Tabungan Keluarga Sejahtera (saving mobilization component of Family Prosperity Development Program)
TGHK	Tata Guna Hutan Kesepakatan (Consensus Forest Landuse)
TPTI	Tebang Pilih dan Tanam Indonesia (Indonesian Selective Logging and Planting System)
UNDP	United Nations Development Program
USAID	United States Agency for International Development
ZOPP	Ziel-Orientierte Projekt-Planung (Objective-Oriented Project Planning), ZOPP planning technique, the GTZ's official project planning system

INTRODUCTION

INTRODUCTION

This volume is part of the Final Report of “the Development Study on Comprehensive Regional Development Plan in the Western Part of Kalimantan (SCRDP-Kaltengbar)” for Japan International Cooperation (JICA) and Bappenas. The Final Report of the study are composed of the following volumes:

- Volume 1: Executive Summary
- Volume 2: Main Text
- Volume 3: Priority Project Profiles
- Volume 4: Sector Plans (1)
- Volume 5: Sector Plans (2)
- Planning Atlas: Kalimantan in GIS

For our study’s convenience, the sectors are different from those of the government of Indonesia. This volume contains the sector plans and analyses of the present conditions. The findings and arguments of the main text of the Final Report are based on those of this volume. The sectoral issues are integrated into the identified issues for regional development in the main text of the Final Report. The major findings of this volume are summarized in Appendix A of the main text of the Final Report.

Each sector plan is formulated by strongly reflecting regional development scenarios and masterplan frameworks, while, at the same time, it is based on sectoral perspectives. That is, each sector plan is guided by the regional approach in order to constitute concerned efforts at sustainable regional development.

CHAPTER 1

REGIONAL ECONOMY

CHAPTER 1 REGIONAL ECONOMY

1.1 PRESENT SITUATION

1.1.1 Economic Growth and Structure

(1) Economic Growth

The economic growth during the periods of 1983-1992 and 1993-1995 was moderate in Central Kalimantan compared with that of the period of 1975-1981, when the province shared in the "hyper growth" experience of most of the other provinces in Indonesia (Table 1.1.1). In the same period in West Kalimantan, however, the growth rate was lower than the later periods.

Table 1.1.1 The Growth of Gross Regional Domestic Product by Sector, West and Central Kalimantan in 1975-1995

	Annual economic growth (%)					
	West Kalimantan			Central Kalimantan		
	75-81	83-92	93-95	75-81	83-92	93-95
Agriculture	0.27	5.29	5.56	6.17	5.13	10.16
Mining & Quarrying	15.84	15.32	20.58	21.52	4.16	81.31
Manufacturing	10.14	12.43	8.07	31.88	10.75	4.43
Electricity, Gas & Water Supply	16.62	19.34	15.40	44.88	18.18	21.42
Construction	17.03	8.80	13.52	44.57	11.21	6.78
Trade, Hotel & Restaurant	6.62	9.04	8.12	20.30	5.49	8.11
Transport & Communication	22.43	6.82	9.14	11.45	8.77	3.32
Finance, Rent of Building & Business Services	16.84	12.01	2.49	23.15	7.17	5.69
Services	6.44	7.77	13.21	10.72	7.45	0.96
Total	6.23	8.31	8.17	13.86	7.17	7.98

Sources: West Kalimantan in Figures 1982;
 GRDP by Province 1983-1990 and 1988-1993;
 Pendapatan Regional Kalimantan Barat 1993-1996;
 Physical, Social and Economic Setting of Central Kalimantan Province;
 Analisis Propinsi Kalimantan Tengah Tahun 1996.

During the three periods of 1975-1981, 1983-1992 and 1993-1995, the annual average growth of the agricultural sector in West and Central Kalimantan was lower than the average growth of the respective provinces, except for Central Kalimantan during 1993-1995. Agricultural growth has always been the lowest in West Kalimantan while that of Central Kalimantan experienced a

substantial change. In Central Kalimantan, agricultural growth was the lowest during 1975-1981 and the second lowest following mining during 1983-1992, but the third highest following mining and electricity during 1993-1995.

Comparing the period of 1983-1992 and the period of 1993-1995, in both West and Central Kalimantan, agriculture's growth rates were higher in the latter period while manufacturing had lower growth rates in the same period. This indicates that the manufacturing sector in the two provinces was dependent on limited agricultural products, mainly wood. The decline in forest resources has a direct impact on manufacturing's growth.

(2) Economic Structure

Despite the growth, the share of agriculture in the GRDP has been decreasing, substituted by the increasing share of many other sectors such as the manufacturing and transport sectors (Table 1.1.2). From 1973 to 1983 the share of agriculture in the GRDP declined significantly from 51% to 34% in West Kalimantan and from 55% to 34% in Central Kalimantan. In the same period, the share of manufacturing increased from 11% to 14% in West Kalimantan and 4% to 10% in Central Kalimantan.

Table 1.1.2 Share of Gross Regional Domestic Product by Sector, West and Central Kalimantan in 1973, 1983 and 1993

	(% at current price)					
	West Kalimantan			Central Kalimantan		
	1975	1983	1993	1975	1983	1993
Agriculture	51	34	25	55	34	37
Mining & Quarrying	0	0	1	0	1	1
Manufacturing Industry	11	14	20	4	10	13
Electricity, Gas & Water Supply	0	0	1	0	0	0
Construction	3	4	6	2	10	6
Trade, Hotel & Restaurant	14	22	21	15	26	18
Transport & Communication	5	8	10	7	5	11
Finance, Rent of Building & Business Services	2	4	8	0	1	3
Services	14	14	9	14	14	11
Total (%)	100	100	100	97	100	100
Total (Rp. Million)	170,151	850,588	5,147,967	63,430	478,308	3,066,885

Sources: West Kalimantan in Figures 1982; GRDP by Province 1983-1990 and 1988-1993; Pendapatan Regional Kalimantan Barat 1993-1996; Physical, Social and Economic Setting of Central Kalimantan Province; Analisis Propinsi Kalimantan Tengah Tahun 1996.

However, the agricultural sector still remains the largest contributor to the GRDP, followed by the trade and manufacturing sectors. From 1973 to 1993, the shares of agriculture and trade sectors in the GRDP were always greater than that of manufacturing. This pattern reflects the

fact that the growth of trade has not always been brought about by the growth of the manufacturing sector. The agriculture and trade sectors apparently have grown together, not accompanied by the growth of the manufacturing sector, because trade is related to many other economic activities and can be started without a large amount of capital or high technology.

1.1.2 Export and Import

(1) Export

The export of West and Central Kalimantan was highly dependent on a few major products, thus the export revenues were very sensitive to the international demand and price. The export value of West Kalimantan in 1996 (US\$695 million) was more than three-times the export value of Central Kalimantan (US\$218.14 million). The value of plywood export accounted for more than half of the total export value in West (61%) and Central Kalimantan (55%). The second major export commodity was crumb rubber in West Kalimantan (25%) and moulding (26%) in Central Kalimantan.

Table 1.1.3 Major export of West and Central Kalimantan, 1992-1996

West Kalimantan	Total value (million US \$)					Share (%)				
	1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Plywood	401.42	512.86	415.33	377.08	425.77	71	72	65	57	61
Crumb rubber	101.04	88.36	109.32	165.39	172.36	18	12	17	25	25
Building component	2.46	4.44	1.09	52.34	30.42	0	1	0	8	4
Block board	20.35	29.63	19.56	20.53	24.67	4	4	3	3	4
Particle board	2.52	8.76	20.32	11.3	9.47	0	1	3	2	1
Wooden furniture	2.24	4.61	7.63	7.4	9.09	0	1	1	1	1
Frozen lobster	3.2	3.46	4.43	9.42	8.83	1	0	1	1	1
Moulding/Dowels	26.15	49.18	52.61	8.64	8.6	5	7	8	1	1
Total	567.72	709.81	643.32	664.77	695.35	99	99	98	98	99
Central Kalimantan										
Plywood	103.91	117.99	122.51	120.56	118.91	58	59	60	57	55
Moulding	67.23	73.09	72.62	66	56.62	37	37	35	31	26
Crumb rubber	5.35	4.95	7.1	20.43	21.38	3	2	3	10	10
Dowels	0	0	0	0	8.48	0	0	0	0	4
Other wood products	0	0	0.01	0.12	7.39	0	0	0	0	3
Dry jelutung	2.19	1.65	0.63	0.67	2.18	1	1	0	0	1
Rattan Goods	1.04	1.89	1.6	2.8	2.11	1	1	1	1	1
Total	180.66	200.19	205.1	211.54	218.14	99	100	100	100	100

Source: Department of Industry and Trade, West and Central Kalimantan

Table 1.1.3 also shows that the share of plywood to the total export value tended to decline. In 1992, it was 71% in West Kalimantan and 58% in Central Kalimantan, and declined to 61% and 55% respectively in 1996. It seems that the share of plywood to the total export value will continuously diminish in the future because of the shortage of log supply. Even at present, West Kalimantan is buying logs from outside the province since the local log supply is not

sufficient anymore. This condition induces the increase of production costs, and consequently, wood processing products from West Kalimantan will be less competitive in the market.

(2) Import

West Kalimantan has five major non-oil and non-gas import commodities, i.e. auxiliary goods, machine equipment, asphalt, melamine powder and machine. These do not include commodities that are imported through harbors other than those in West Kalimantan. For instance, the local companies in West Kalimantan may use commodities that are imported by their head offices located in Java. The import value of auxiliary goods tended to increase because of the establishment of manufacturing industries, and its value accounted for the largest proportion of the total import in West Kalimantan.

Table 1.1.4 Non oil and gas import commodities, West Kalimantan 1992/1993 to 1995/1996

Import commodities	Values (thousand US \$)				Share (%)			
	1992/ 1993	1993/ 1994	1994/ 1995	1995/ 1996	1992/ 1993	1993/ 1994	1994/ 1995	1995/ 1996
Auxiliary goods	3656	14902	16925	11369	46	35	63	60
Machine equipment	1915	3710	3692	2793	24	9	14	15
Asphalt	691	854	903	1270	9	2	3	7
Melamine Powder	94	3112	862	473	1	7	3	3
Machine	1360	20090	4072	2947	17	47	15	16
Others	246	243	291	0	3	1	1	0
Total	7962	42911	26745	18852	100	100	100	100

Source: West Kalimantan in Figures, 1996

(3) Inter-insular Trade

Inter-insular trade between West or Central Kalimantan and Java is very important, since both provinces are not able to fulfill the local demand for many commodities. For example, the local supply of rice has not met the demand, thus it has to be bought from outside the provinces mainly from Java. In 1994, West and Central Kalimantan bought 156,737 tons and 20,587 tons of rice respectively. The next year, the amount of rice bought increased by 8% in West Kalimantan and 64% in Central Kalimantan (West Kalimantan in Figures, 1996 and Central Kalimantan in Figures, 1995).

1.1.3 Investment

The patterns of investment in West and Central Kalimantan are different. From 1967 up to 1995, the approved cumulative amount of domestic investment and the average amount of domestic investment projects in West Kalimantan were bigger than those in Central Kalimantan, while for foreign investment they were vice versa (Table 1.1.5).

Table 1.1.5 Approved Domestic and Foreign Investment, West and Central Kalimantan, 1994-1995

	West Kalimantan				Central Kalimantan			
	1994	1995	Change 94-95(%)	1967 up to 1995	1994	1995	Change 94-95(%)	1967 up to 1995
Domestic investment (Billion Rupiahs)								
Capital	932	1051	13	9306	873	1858	113	3379
Project	11	5	-55	204	16	13	-19	117
Average capital	85	210	60	46	55	143	160	29
Foreign investment (Million US \$)								
Capital	8	175	2088	284	0	73	~	341
Project	2	6	200	32	0	1	~	32
Average capital	4	29	625	9	0	73	~	11

Source: Statistical Pocketbook of Indonesia 1995

Domestic investment is apparently more attracted to Central Kalimantan than West Kalimantan in recent years. This is indicated by the rapid growth in domestic investment in Central Kalimantan. From 1994 to 1995, domestic investment more than doubled in this province. The amount of approved domestic investment in Central Kalimantan in 1995 exceeded that of West Kalimantan. The scale of domestic investment projects was also increased, reflected by the decreased number of investment projects from 16 in 1994 to 13 in 1995.

In contrast, West Kalimantan appears to be more attractive than Central Kalimantan to foreign investors. Though Central Kalimantan also experienced rapid growth of foreign investment in recent years, from almost nil in 1994 to US\$73 million in 1995, the amount of approved foreign investment in Central Kalimantan was much smaller than that in West Kalimantan.

The patterns of investment by sectors are somewhat different between West and Central Kalimantan (Table 1.1.6). Almost half of the total foreign investments in these two provinces were in mining. The second important sector was the food industry in West Kalimantan and forestry in Central Kalimantan. The estate crop sector had the largest share of the total domestic investment both in West and Central Kalimantan. The other major sectors in domestic investment were forestry and the wood processing industry in West Kalimantan and wood processing in Central Kalimantan.

Table 1.1.6 Major Domestic and Foreign Investment, West Kalimantan in 1995 and Central Kalimantan in 1996

West Kalimantan in 1996*			Central Kalimantan in 1995**		
Domestic investment (Rp. Million)			Domestic investment (US\$ Million)		
Estate Crops	1,289,122	54%	Estate Crops	45,041,715	95%
Forestry	450,915	19%	Wood Industry	2,199,007	5%
Wood Industry	404,271	17%	Others	56,427	0%
Others	226,312	10%		47,297,149	100%
Total	2,370,620	100%			
Foreign Investment (US\$1,000)			Foreign Investment (US\$1,000)		
Mining	36,269	50%	Mining	206,861	46%
Food Industry	13,265	18%	Forestry	180,936	41%
Others	22,682	31%	Others	57,575	13%
Total	72,216	100%	Total	445,372	100%

Sources: West Kalimantan in Figures 1996;
Central Kalimantan in Figures 1995.

Notes: *) The data refer to cumulative actual investment up to 1996.

***) The data refer to approved investment.

1.1.4 Employment and Wages

(1) Labor Force and Employment

One of the main objectives of economic development is to provide job opportunities for the people. According to the 1995 Intercensal Population Survey, the number of people economically active was 1.7 million in West Kalimantan and 0.7 million in Central Kalimantan. Among these, around 95% were working. The increase of the population economically active but unemployed or underemployed, especially among those who have a higher education, senior high school level or higher, is one of the serious problems in the two provinces, as in Indonesia as a whole.

In both provinces, agriculture is the main source of employment which absorbs more than half of the total labor force (Table 1.1.7). In 1995, the percentages of workers in the agricultural sector in West and Central Kalimantan were 68% and 63% respectively, and were much higher than the sector's share in the GRDP in each province. Accordingly, the labor productivity in agriculture was relatively low (Table 1.1.8). Other major sources of employment were the manufacturing, trade and other services sectors.

Table 1.1.7 Labor Force by Sector in West and Central Kalimantan, in 1990 and 1995

Sector	West Kalimantan		Central Kalimantan	
	1990	1995	1990	1995
Agriculture	73	68	62	63
Mining & Quarrying	1	2	3	4
Manufacturing	5	5	10	4
Electricity	0	0	0	0
Construction	2	3	2	2
Trade, Hotel, Restaurant	7	10	9	10
Transport	2	2	2	2
Finance	1	0	0	0
Services	9	10	11	14
Total	100	100	100	100

Sources: 1990 Population Census of West and Central Kalimantan;
West Kalimantan in Figures 1996;
Central Kalimantan in Figures 1995.

(2) Labor Productivity

Labor productivity by sectors in West Kalimantan was greatly varied. Both in 1993 and 1995, agriculture and finance sectors had the lowest and the highest labor productivity respectively. The large investment in agriculture especially in estate crops and forestry might contribute to the rapid increase in labor productivity in agriculture (52%) from 1993 to 1995. However, this increase has not been able to induce labor productivity in agriculture as high as labor productivity in other sectors such as in services. This might be the effect of a large proportion of laborers in the agricultural sector which were still working in subsistence agriculture. A wide range of labor productivity can be not only in agricultural sector but also in non-agricultural sectors. For instance, laborers in other services include government officials as well as housemaids, while laborers in trading sector may include big traders and street vendors.

Table 1.1.8 Labor Productivity by Sector, West Kalimantan in 1993 and 1995

Sector	Labor Productivity (Rp.1,000)	
	1993	1995
Agriculture	1,057	1,610
Mining & Quarrying	1,653	2,117
Manufacturing	14,409	17,913
Electricity	11,628	16,809
Construction	7,899	10,405
Trading, Hotel, Restaurant	10,337	12,863
Transport	18,392	17,861
Finance	42,242	46,863
Services	3,108	4,147
Average	3,445	4,454

Source: West Kalimantan in Figures 1996.

(3) Wages

The wage data are quite limited. Table 1.1.9 shows that weekly average wage of manufacturing in Kalimantan (Rp.47,000) was similar to that in Jakarta (Rp.46,900), and higher than the Indonesian average (Rp.39,300), West Java (Rp.44,600), Central Java (Rp.27,900) and East Java (Rp.35,200). The weekly average wage of star-hotels in Kalimantan (Rp.44,600) was only higher than Central Java (Rp.42,200), while in non-star hotels the average wage (Rp.41,300) was only lower than the Indonesian average (Rp.61,700). The data imply that wages of manufacturing and non-star hotels in Kalimantan were higher than those in Java.

Table 1.1.9 Weekly average wage of production workers in manufacturing and hotel in some provinces of Indonesia, December 1995

	Weekly wage average (Rp.thousands)					
	Kalimantan	Jakarta	West Java	Central Java	East Java	Indonesia
Manufacturing	47	46.9	44.6	27.9	35.2	39.3
Hotel	44.6	81.1	39.6	30.5	47	50.8
Star	48	92.9	48.6	42.2	58.4	65.7
Non-star	41.3	61.7	34.4	22.5	33.9	36.6

Source: Statistical pocketbook of Indonesia 1995

1.1.5 Per Capita Income and Price Level

Per capita income of West Kalimantan is slightly below the national average, while that of Central Kalimantan marks No.4 of all the provinces in terms of non-oil and non-gas GRDP. From 1993 to 1995, per capita income at 1993 constant price in West Kalimantan increased by 13%, while in Central Kalimantan the increase was 11%.

Table 1.1.10 Per capita income at 1993 constant price, West and Central Kalimantan, 1993-1995

Year	Per capita income at 1993 constant price (Rp.)	
	West Kalimantan	Central Kalimantan
1993	1,491,970	1,593,999
1994	1,567,837	1,667,781
1995	1,678,567	1,764,261

Source: Pendapatan regional Kalimantan Barat 1993-1996
Indikator perkembangan ekonomi Kalimantan Tengah 1995

In 1993, the average monthly expenditure per capita in West Kalimantan was Rp.40,208 and the proportion of the expenditure for food was 66.7%. There was a significant difference between urban and rural areas in the structure of expenditure. In urban areas, the proportion of food expenditure was 53.5%, while in rural areas it was 73.5%. This is mainly explained by the big difference of the total expenditure in urban and rural areas, the former amounted to almost double of the latter. In Central Kalimantan, on the other hand, the average monthly expenditure per capita was Rp.44,863 in the same year, and the proportion of the food

expenditure was 69.9%. Comparing these two provinces, the per capita expenditure in Central Kalimantan was higher than that in West Kalimantan, however, the proportion of food expenditure in Central Kalimantan was also higher than in West Kalimantan. This implies that the price level of food in Central Kalimantan is higher than that of West Kalimantan, although the income and expenditure are at higher levels in Central Kalimantan.

Actually, in 1995, the price of rice in Palangkaraya (Rp.1,233) was higher than in Pontianak (Rp. 809) and other cities in Indonesia, such as Jakarta (Rp.1,087), Bandung (Rp.924), Semarang (Rp.826), Yogyakarta (Rp.910) and Surabaya (Rp.835). The price of rice in Pontianak was higher than Banda Aceh (Rp.781), Tanjung Karang (Rp.786), Banjarmasin (Rp.741), Palu (Rp.789) and Ujung Pandang (Rp.771) (Statistical Pocketbook of Indonesia 1995).

The price of rice between cities in West and Central Kalimantan was greatly varied. In some cities of West Kalimantan, the price of rice ranged from the lowest (Rp.846) in Ketapang to the highest (Rp.1,161) in Sanggau. In some cities of Central Kalimantan, the price of rice ranged from the lowest in Tamiang Layang (Rp.952) to the highest in Puruk Cahu (Rp. 1,417) (Table 1.1.11).

**Table 1.1.11 Retail price of rice by cities,
West and Central Kalimantan, 1996 and 1995**

West Kalimantan 1996		Central Kalimantan 1995	
Cities	Price (Rupiah)	Cities	Price (Rupiah)
Singkawang	1019	Pangkalan Bun	1231
Mempawah	910	Sampit	1144
Sanggau	1161	Kasongan	1071
Ketapang	846	Kuala Kapuas	1195
Sintang	900	Kuala Kurun	1221
Putussibau	1123	Buntok	1056
Pontianak	1069	Tamiang Layang	952
		Muara Teweh	1110
		Puruk Cahu	1417
		Palangkaraya	1147

Source: West Kalimantan in figures 1996
Central Kalimantan in figures 1995

1.1.6 Economic Conditions by District

(1) Economic Growth and GRDP Distribution

The economic conditions of the districts of West and Central Kalimantan are varied. In 1995, economic growth of the districts in West Kalimantan was the highest in Sanggau (12.2%) and the lowest in the municipality of Pontianak (8.9%), while in Central Kalimantan the highest was

in Barito Utara (17.2%) and the lowest was in Palangkaraya (7.3%).¹ From 1994 to 1995, the economy of all districts grew, where Sanggau and Kapuas Hulu in West Kalimantan and Kotawaringin Timur and Barito Utara in Central Kalimantan achieved higher economic growth than other districts in the respective provinces. In both provinces, the growth rate of the capital city was lower than all the district levels in 1995.

In West Kalimantan, the higher economic growth in Sanggau was due to the development of estate crops and infrastructure development since the district is a gateway to Kuching. However, major contributors to the GRDP were the municipality and the district of Pontianak in 1993-95, with a combined share of more than 50% of the total, followed by Sambas (Table 1.1.12).

Table 1.1.12 Distribution of Gross Regional Domestic Product by District, West and Central Kalimantan in 1993, 1994 and 1995

West Kalimantan				Central Kalimantan			
District	1993	1994	1995	District	1993	1994	1995
Sambas	14.98	15.08	15.20	Kotawaringin Barat	18.21	17.36	17.35
Pontianak	29.58	29.51	28.73	Kotawaringin Timur	28.50	29.29	30.97
Sanggau	9.41	9.54	9.73	Kapuas	21.28	21.18	20.15
Ketapang	9.23	9.19	9.18	Barito Selatan	9.83	9.78	9.20
Sintang	6.36	6.46	6.60	Barito Utara	12.65	13.35	13.93
Kapuas Hulu	3.81	3.78	3.83	Palangkaraya Municipal	9.53	9.04	8.41
Pontianak Municipality	26.64	26.45	26.74	-	-	-	-
Total	100.00	100.00	100.00	Total	100.00	100.00	100.00

Source: Gross Regional Domestic Product of Regencies/Municipalities in Indonesia 1993-1995.

In Central Kalimantan, the districts of Kotawaringin Timur, Kapuas and Kotawaringin Barat are major contributors. The economic role of the capital city, Palangkaraya, is relatively small in the province.

(2) Economic Structure of Districts

1) West Kalimantan

The economic structure of each district in West Kalimantan is more varied than in Central Kalimantan. The Pontianak district, the Pontianak municipality and the Sambas district have different major economic activities, namely, manufacturing, services and agriculture, respectively. The economic structure of other districts in West Kalimantan, i.e., Sintang, Sanggau, Ketapang and Kapuas Hulu, is dominated by agriculture. Among these four districts, Ketapang had the lowest share of agriculture in its GRDP, while Kapuas Hulu had the highest in 1995.

¹ BPS, *Gross Regional Domestic Product of Regencies/Municipalities in Indonesia 1993-1995*.

Table 1.1.13 GRDP Structure of Districts, West Kalimantan in 1995

Sector	Gross Regional Domestic Product (%)						
	Sambas	Pontianak	Sanggau	Ketapang	Sintang	Kapuas Hulu	Pontianak Municipality
Agriculture	35.98	27.74	35.46	25.97	44.64	51.95	1.66
Mining & Quarrying	0.70	0.33	1.84	6.04	4.19	1.88	0.00
Manufacturing	9.41	40.30	28.67	21.72	4.91	2.21	5.26
Electricity	0.69	0.15	0.25	0.26	0.32	0.18	1.97
Construction	3.53	1.59	4.80	2.95	4.51	5.68	14.43
Trading, Hotel, Restaurant	29.12	20.08	18.80	20.96	27.49	20.88	19.92
Transport	7.00	4.32	2.47	13.60	2.75	2.27	19.56
Finance	5.97	2.61	3.79	4.59	4.65	5.33	13.66
Services	7.59	2.88	3.93	3.90	6.54	9.62	23.55
Total	100	100	100	99.99	100	100	100

Source: West Kalimantan in Figures 1996.

Trade was the second major sector in all districts except in the Pontianak district. The shares of trade to GRDP in Sambas (29%) and Sintang (27%) were higher than in other districts where the share of trade was more or less 20%. The second major sector in the Pontianak district was agriculture (28%).

The Pontianak district is the center for the manufacturing industry in West Kalimantan. Up to 1996, this district had the largest number of domestic investment projects (96 out of 191), the largest domestic investment values (37% of the total investment) and the largest number of employees (39% of the total employees) in the province (Table 1.1.14). The number of domestic investment projects in Sanggau (12) was the second smallest after Kapuas Hulu (6), however, Sanggau had the second largest position in investment value (27% of the total domestic investment) and in the number of employees (29% of the total employees) in the province.

Table 1.1.14 Investment by Districts, West Kalimantan, 1996

Districts	Projects	Investment values (Rp. million)	Employees	Share (%)		
				Projects	Investment values (Rp. million)	Employees
Domestic investment						
Sambas	13	111842	2079	7	5	3
Pontianak	96	879621	28337	50	37	39
Sanggau	12	650151	20665	6	27	29
Ketapang	26	460992	9010	14	19	13
Sintang	13	174605	9289	7	7	13
Kapuas Hulu	6	24899	646	3	1	1
Kod. Pontianak	25	66310	1968	13	3	3
West Kalimantan	191	2368420	71994	100	100	100
Foreign investment						
Sambas	5	28618	393	14	40	19
Pontianak	14	29784	1307	38	41	62
Sanggau	5	5236	36	14	7	2
Ketapang	2	0	0	5	0	0
Sintang	4	6972	0	11	10	0
Kapuas Hulu	1	0	0	3	0	0
Kod. Pontianak	6	1606	363	16	2	17
West Kalimantan	37	72216	2099	100	100	100

Source: West Kalimantan in figures 1996

As for the foreign investment, the Pontianak and Sambas districts had a similar proportion in investment value of about 40%, however, the Pontianak district absorbed the largest employees (62%) while the Sambas district employed only 19% of the total. The number of investment projects in the Pontianak district (38%) was also greater than the Sambas district (14%). This is due to the different types of foreign investment; in the Pontianak district the investment was concentrated on wood processing industry, while it was concentrated on mining industry in Sambas.

2) Central Kalimantan

In Central Kalimantan, the economy of each district is based more on agriculture than in West Kalimantan. Agriculture is the main economic activity in all districts except Palangkaraya (Table 1.1.15). The share of agriculture in the GRDP in 1995 was lowest in Kotawaringin Barat (33%) and highest in Barito Utara (50%). The share of agriculture in Palangkaraya was only 8%. Rapid development in infrastructure led Palangkaraya to have a greater share in the transport sector (30%) and other services (25%), the latter includes public administration.

Trade was the second major sector in all districts of Central Kalimantan except in Palangkaraya and Kotawaringin Barat. The second major sector in Kotawaringin Barat was manufacturing. Kotawaringin Barat and Timur and Kapuas had higher contribution of manufacturing and trade compared to other districts. This is due to the location of the Kotawaringin Barat and Timur and

Kapuas districts that are closer to Java than other districts which are connected with Banjarmasin, South Kalimantan. Kotawaringin Barat and Timur and Kapuas are the centers of sea transport that link Central Kalimantan to other parts of Indonesia. Not surprisingly, the share of these three districts in the provincial GRDP was much greater than that of Barito Utara and Selatan, and Palangkaraya (Table 1.1.12). In Kotawaringin Barat, the share of manufacturing industry is the second largest following agriculture.

Table 1.1.15 GRDP Structure of Districts, Central Kalimantan in 1995

Sector	Gross Regional Domestic Product (%)					
	Kotawaringin Barat	Kotawaringin Timur	Kapuas	Barito Selatan	Barito Utara	Palangkaraya Municipality
Agriculture	33.45	42.11	42.7	45.02	50.09	8.14
Mining & Quarrying	0.41	10	0.23	0.47	10.66	2.18
Manufacturing	23.05	10.78	14.7	5.75	2.4	4.89
Electricity	0.16	0.2	0.23	0.19	0.12	1.18
Construction	6.22	3.79	6.53	9.89	4.35	10.68
Trading, Hotel, Restaurant	19.4	19	17.29	13.37	16.15	12.08
Transport	8.57	6.72	6.41	11.43	8.89	29.56
Finance	2.8	2.06	3.05	3.03	1.91	5.8
Services	5.94	5.33	8.87	10.84	5.43	25.49
Total	100	99.99	100.01	99.99	100	100

Source: Indikator Perkembangan Ekonomi Kalimantan Tengah 1995.

(3) Per Capita Income

In West Kalimantan, the municipality of Pontianak and the district of Pontianak had a higher per capita income than other districts in 1995 (Table 1.1.16). Their higher per capita income is due to the larger shares of the manufacturing and service sectors in the provincial economy, compared with other provinces which mainly depend on the agriculture sector. Higher productivity in the service sector compared with the manufacturing sector led the Pontianak municipality to have higher per capita income than the Pontianak district.

Table 1.1.16 Per Capita Income by District, West and Central Kalimantan in 1995

West Kalimantan		Central Kalimantan	
District	Per Cap Income (Rp.1,000)	District	Per Cap Income (Rp.1,000)
Sambas	1,322	Kotawaringin Barat	3,675
Pontianak	2,428	Kotawaringin Timur	3,072
Sanggau	1,471	Kapuas	1,782
Ketapang	1,843	Barito Selatan	2,469
Sintang	1,090	Barito Utara	3,917
Kapuas Hulu	1,602	Palangkaraya	2,553
Pontianak Municipality	4,397		
Provincial Average	1,977	Provincial Average	2,697

Source: Gross Regional Domestic Product of Regencies/Municipalities in Indonesia 1993-1995.

In Central Kalimantan, although Palangkaraya is a center for the tertiary sector, the highest per capita income is seen in Kotawaringin Barat, which is the center of the manufacturing industry. Per capita income in Kotawaringin Barat is more than twice of the Kapuas district, which has the lowest per capita income in the province. The high per capita income in Kotawaringin Barat is generated by the high productivity in the manufacturing sector. However, in this district, the cost of living is also relatively high as indicated by the higher price of rice in Pangkalanbun (See Section 1.1.5).

1.2 ECONOMIC STRUCTURE OF WEST KALIMANTAN

The input-output tables (I-O tables) of West Kalimantan in 1995 were published in February, 1998. In these tables, a classification of 50 subsectors was newly adopted according to the results of the 1996 Economic Census. The new classification is composed of 17 subsectors in agriculture, 1 in mining, 9 in manufacturing industry, 2 in electricity and water, 1 in construction, 3 in trade, restaurants & hotels, 7 in transport & communication, 5 in financial & business services, and 5 in services. The I-O tables describe the structure of transactions among the subsectors.

Based on the 1995 I-O tables, this section reviews the economic structure of West Kalimantan a little further in terms of demand and supply of goods and services, major subsectors in output and value added, their cost structure and the impact of the declining industry.

1.2.1 Structure of Demand and Supply

(1) Demand Structure

The total demand and supply for goods and services in West Kalimantan in 1995 was Rp.15,255.3 billion, as shown in Table 1.2.1. The amount of the demands for intermediate input by the production sectors was Rp.5,590.3 billion which was 36.6% of the total demand. The final demand, on the other hand, that is composed of private consumption, government consumption, capital formation, change of stock and export, amounted to Rp.9,664.8 billion, 63.4% of the total demand. In this final demand, the biggest demand was private consumption (Rp.3,555.9 billion, 23.3% of the total demand), the second was export (Rp.2,645.6 billion, 17.3%), and the third was capital formation (Rp.2,200.5 billion, 14.4%).

Table 1.2.1 Demand and Supply Structure by Economic Sectors in 1995 (Rp. billion)

	Demand		Supply		Total Demand	Supply		Total Supply
	Intermediate Input	Domestic Final Demand	Export	Domestic Production		Import		
1. Agriculture	1,267.3	985.7	136.9	2,078.7	311.2	2,389.9	2,389.9	
2. Mining & Quarrying	128.2	0.2	0.0	108.1	20.4	128.5	128.4	
3. Manufacturing Industry	1,606.5	2,249.4	2,254.1	4,357.2	1,752.8	6,110.0	6,110.0	
4. Electricity, Gas & Water	103.0	36.1	0.0	139.1	0.0	139.1	139.1	
5. Construction	98.0	1,368.5	0.0	1,466.5	0.0	1,466.5	1,466.5	
6. Trade, Hotel & Restaurant	1,274.9	1,064.0	254.6	2,593.6	0.0	2,593.6	2,593.6	
7. Transport & Communication	693.4	499.0	0.0	1,192.3	0.0	1,192.3	1,192.3	
8. Financial Institutions	405.4	121.0	0.0	526.5	0.0	526.5	526.5	
9. Other Services	13.6	695.3	0.0	708.9	0.0	708.9	708.9	
Total	5,590.3	7,019.2	2,645.6	13,170.9	2,084.4	15,255.3	15,255.2	
Agriculture								
a. Food Crop	388.9	297.4	55.0	669.3	72.0	741.3	741.3	
b. Estate Crop	313.0	81.0	1.3	386.0	9.4	395.3	395.4	
c. Livestock	57.3	289.9	0.0	188.7	158.5	347.2	347.2	
d. Forestry	500.5	244.7	0.0	705.0	40.3	745.3	745.3	
e. Fisheries	7.5	72.7	80.5	129.7	31.1	160.7	160.8	
Manufacturing Industry								
a. CPO	0.0	14.5	107.4	121.9	0.0	121.9	121.9	
b. Food Processing	72.5	506.3	29.5	505.3	103.0	608.3	608.3	
c. Wood Processing	673.4	926.8	1,463.6	2,511.9	551.8	3,063.8	3,063.7	
d. Paper	30.3	113.3	44.1	47.5	140.3	187.7	187.8	
e. Rubber Ind.	215.3	292.1	320.8	722.7	105.5	828.2	828.2	
f. Chemical Ind.	166.9	103.0	210.3	278.8	201.3	480.2	480.1	
g. Non-metallic Mineral Products	6.1	1.4	0.0	7.4	0.1	7.5	7.5	
h. Oil Ind.	234.4	112.1	0.0	0.0	346.5	346.5	346.5	
i. Other Ind.	207.5	179.9	78.5	161.6	304.3	465.9	465.9	

Source: Tabel Input-Output Propinsi Kalimantan Barat, Tahun 1995

Among the 9 economic sectors, the products of the manufacturing industry were the most demanded in value, the amount of which was Rp. 6,110.0 billion in 1995, 40.1% of the total demand, and their export demand was the highest among all the sectors (Rp.2,254 billion, 85.2%) in 1995. The most typical manufacturing industry is the wood processing industry, the biggest industry of the province. The second biggest sector in demand was the trade, hotel & restaurant subsector (Rp.2,593.6 billion, 17.0%). This subsector also exported 9.8% of its services outside the province. Because of the geographical extent of the province, trade sector is important for all economic activities as well as the transport sector.

Regarding the components of intermediate input, the most demanded sector is again the manufacturing industry (Rp.1606.5 billion, 28.7% of the total intermediate input), followed by the trade, hotel & restaurant (Rp.1,274.9 billion, 22.8%), and by the agriculture sector (Rp.1,267.3 billion, 22.7%). The demands for these sectors are rather balanced compared to the structure of final demands, especially that of export which is highly concentrated in the manufacturing industry. This is explained by the fact that a certain portion of agricultural output is processed in the manufacturing sector and then exported, especially forestry produces and estate crops.

If we have a closer look at the agriculture sector, the export of the fisheries sector is prominent, which amounted to more than a half of the total supply of fisheries produces, bigger than the domestic consumption.

Among the manufacturing industries, the wood industry occupied the highest shares in all the demand groups which are intermediate input, domestic final demand and export. Major export oriented industries in West Kalimantan were the wood processing (export was 47.8% of the total demand), rubber industry (38.7%), chemical industry (43.8%) and the CPO (88.1%), although the last one's volume was not large enough in 1995. The industries in which the domestic final demand was dominant, were the food (83.2%) and paper (60.4%) industries. The proportion of intermediate input was high for the products of non-metallic mineral industry (81.3%), oil (67.6%) and chemical (34.8%) industries and other industries (44.5%).

(2) Supply Structure

The supply of each sector is composed of domestic production and import. While almost all the commodity sectors were supplied by both sources, utilities, construction and services were supplied only domestically. The proportion of the entire import to the total supply of goods and services was 13.7% in 1995, which was slightly lower than that of the entire export to the total demand (17.3%). A big amount of import was seen in manufactured goods, which was 28.7% of the total supply of that category.

In the agriculture sector, it is noted that the demand of livestock, mostly cattle, was filled with the import from other provinces, which amounted to 45.7% of the total supply of livestock. On the other hand, the fishery products were exported more than half of the total supply, as already mentioned above.

In the manufacturing industries, oil products were imported 100% in West Kalimantan. High import proportions were also seen in the paper (74.7% of the supply), other industries (65.3%) and the chemical industry (41.9%).

(3) Final Demand Structure

The breakdown of the total final demand is shown in Table 1.2.2. The domestic final demand is divided into four components, which are private consumption, government consumption, capital formation and change of stock. The proportion of private consumption was 46.9% of the GRDP, and that of government consumption scored 12.8%. This means the domestic consumption of West Kalimantan was almost 60% of the total provincial income.

Table 1.2.2 Final Demand Structure in 1995

	(Rp. billion)	To F.Demand	To GRDP
Private Consumption	3,559.9	36.8	46.9
Government Consumption	967.6	10.0	12.8
Capital Formation	2,200.5	22.8	29.0
Change of Stock	295.3	3.1	3.9
Export	2,645.6	27.4	34.9
Final Demand	9,664.9	100.0	127.5
Import	2,084.4	21.6	27.5
GRDP	7,580.5	78.4	100.0

Source: Tabel Input-Output Propinsi Kalimantan Barat, Tahun 1995

The capital formation, on the other hand, amounted to Rp.2,200.5 billion, 29.0% of the GRDP, and more than half of this value was directed to the construction sector. The major demanded goods and services for capital formation were those of the construction (55.0%), the manufacturing industry (21.8%), and the trade subsector (18.5%).

1.2.2 Major Subsectors in Output and Value Added

The rankings of the top ten subsectors in output and value added are given in Table 1.2.3. The wood processing industry produced the biggest output in value, and the trade subsector was in the second place. In the value added ranking, on the other hand, the order of these biggest two subsectors was in reverse, i.e. the first was the trade subsector and the second was the wood

industry. These two subsectors together produced 37.6% of the total output and 35.5% of the provincial income.

Table 1.2.3 Major Subsectors in Output & Value Added in 1995

Output	(Rp.billion)	%	Value Added	(Rp.billion)	%
1. Wood Processing Ind.	2,511.9	19.1%	1. Wholesale & Retail Trade	1,629.0	21.5%
2. Wholesale & Retail Trade	2,439.6	18.5%	2. Wood Processing Ind.	1,061.5	14.0%
3. Construction	1,466.5	11.1%	3. Gov. Adm. & Defense	650.8	8.6%
4. Rubber Ind.	722.7	5.5%	4. Wood	467.3	6.2%
5. Gov. Adm. & Defense	650.8	4.9%	5. Construction	438.9	5.8%
6. Wood	569.8	4.3%	6. Business Services	283.6	3.7%
7. Food Processing Ind.	505.3	3.8%	7. Rice	274.0	3.6%
8. River Transportation	361.6	2.8%	8. Food Processing Ind.	251.5	3.3%
9. Rice	299.5	2.3%	9. River Transportation	224.6	3.0%
10. Business Services	285.7	2.2%	10. Rubber	183.1	2.4%
Total (1-10)	9,813.5	74.5%	Total (1-10)	5,464.3	72.1%
Other Sectors	3,357.3	25.5%	Other Sectors	2,116.2	27.9%
Total	13,170.8	100.0%	Total	7,580.5	100.0%

Source: Tabel Input-Output Propinsi Kalimantan Barat, Tahun 1995

While the construction subsector placed third position in output, it descended to the fifth place in value added. Instead, the subsector of government administration and defense scored the fifth biggest in value added, and the third place in output. Both values of this subsector are exactly the same amount because the output of the subsector is made up only of the wages and salaries, and depreciation.

Other important subsectors which came up in the two lists were the wood, rice and rubber in agriculture, the rubber and food industries in manufacturing sector, and the river transportation and business services in services sector.

Among the 50 economic subsectors classified in the 1995 I-O table, the top ten subsectors in output and value added, produced 74.5% and 72.1% of the respective provincial total. Out of these economic activities, nine subsectors were ranked in both lists. They are; the rice and wood, the wood and food industries, the construction, the trade, the river transport, the government administration and defense, and the business services.

1.2.3 Structure of Cost and Value Added in Major Subsectors

The cost structure and the breakdown of value added of the nine major subsectors and of the provincial total are summarized in Table 1.2.4. The basic composition of production cost is given by 1) intermediate input, domestic and imported, and 2) value added which is composed of wages and salaries, business surplus, depreciation and indirect tax; the percentage shares of these components to the total value added of each subsector are also shown in the table.

Table 1.2.4 Cost Structure & Value Added of Major Subsectors in 1995

	All Sectors (Rp. billion)	(100.0%)	Rice (Rp. billion)	(2.3%)	Wood (Rp. billion)	(4.3%)	Food Industry (Rp. billion)	(3.8%)	Wood Industry (Rp. billion)	(19.1%)
Total Input	13,170.8	100%	299.5	100%	569.8	100%	505.3	100%	2,511.9	100%
Domestic Input	4,683.2	36%	20.9	7%	95.8	17%	240.3	48%	1,085.7	43%
Imported Input	907.2	7%	4.6	2%	6.8	1%	13.6	3%	364.7	15%
Value Added	7,580.5	58%	274	91%	467.3	82%	251.5	50%	1,061.5	42%
Wages & Salaries	2,226.7	29%	15	5%	82.2	18%	39.9	16%	202.0	19%
Business Surplus	4,095.0	54%	212.8	78%	358.2	77%	187.3	74%	610.2	57%
Depreciation	671.8	9%	45.5	17%	22.8	5%	23.7	9%	107.9	10%
Indirect Tax	258.8	3%	0.7	0%	4.1	1%	0.6	0%	6.1	1%

	Construction (Rp. billion)	(11.1%)	Trade (Rp. billion)	(18.5%)	River Transport (Rp. billion)	(2.8%)	Gov.Admin. (Rp. billion)	(4.9%)	Business Service (Rp. billion)	(2.2%)
Total Input	1,466.5	100%	2,439.6	100%	361.6	100%	650.8	100%	285.7	100%
Domestic Input	856.7	58%	736.3	30%	123.2	34%	0.0	0%	2.1	1%
Imported Input	170.9	12%	74.3	3%	13.7	4%	0.0	0%	0.1	0%
Value Added	488.9	30%	1,629.0	67%	224.6	62%	650.8	100%	283.6	99%
Wages & Salaries	199.1	45%	308.9	19%	27.3	12%	627.3	96%	142.4	50%
Business Surplus	86.9	20%	900.7	55%	159.4	71%	0.0	0%	118	42%
Depreciation	55.3	13%	100.9	6%	36.2	16%	23.5	4%	14.9	5%
Indirect Tax	97.7	22%	110.8	7%	1.7	1%	0.0	0%	8.3	3%

Source: Tabel Input-Output Propinsi Kalimantan Barat, Tabur 1995

Note: The figure aside the subsector's name is the output share to the provincial total.

In the entire economic activity of West Kalimantan, 58% of the total production cost consisted of value added, in other words, the income of the province. In this total value added, the amount paid for wages and salaries was Rp.2,226.7 billion, 29% of the total value added. On the other hand, business surplus gained the largest portion of value added, which amounted to 54% of the total. Depreciation and income tax contributed 9% and 3%, respectively.

In agriculture, the rice and wood subsectors are in the nine major subsectors in West Kalimantan, as mentioned in the previous section. The common feature of these two is that the proportion of value added was high while that of imported input was very low, compared to the average of all the economic activities in the province. Regarding the breakdown of value added, the business surplus enjoyed high shares in both subsectors, however, the types of business are quite different. In the case of rice, it can be said that most of its production is done by self-employed business units. This explains the reason for the very low cost of wages. On the other hand, the wood subsector requires a lot of workers, and the cost of which amounted to 14.8% of the total cost. The wood subsector also requires for its production several services such as river transport (20.8% of domestic input), trade (18.5%) and air transport (17.7%), mainly because the production sites are remote from the urban centers.

The two largest manufacturing industries, the food and wood processing industries, also have some common features. The proportion of intermediate input was relatively high, 50-60% of the total input of each industry, although the wood industry demanded much more imported input. The shares of wages and salaries to the value added were 16% in the food industry and 19% in the wood industry. However, taking into account the weights of value added in total input, both industries paid almost the same level of 8% of the total input for wages and salaries. As for the business surplus, the food industry achieved 74% of the value added, a higher proportion than that of the wood industry.

The construction subsector is very different from other major subsectors in its cost structure. It demanded intermediate input up to 70% of the total cost, the highest proportion in the nine subsectors. It used the domestic input of Rp.856.7 billion, next to the wood industry in volume, and followed by the trade subsector. By the way, the sum of domestic input of these three subsectors occupied 57.2% of the total domestic input of the province. If we look at the value added components of the construction subsector, 45% of value added was paid as wages and salaries for the workers. Its share of the total input was 13.6%, however, this figure is relatively high in the major subsectors, except some certain services subsectors.

Trade and river transport subsectors had similar input structures, which composed 30-34% of the domestic input, 3-4% of the imported input and 67-62% of the value added. These input structures happened to be similar to that of total provincial production. Some differences

between these two subsectors are found in business surplus and in depreciation. The rate of business surplus of the river transport subsector was 71% of the value added, on the other hand, that of the trade subsector was 55%. The other difference was in the rates of depreciation, the river transport subsector counted 16% of the value added to depreciation, while that of the trade subsector was only 6%.

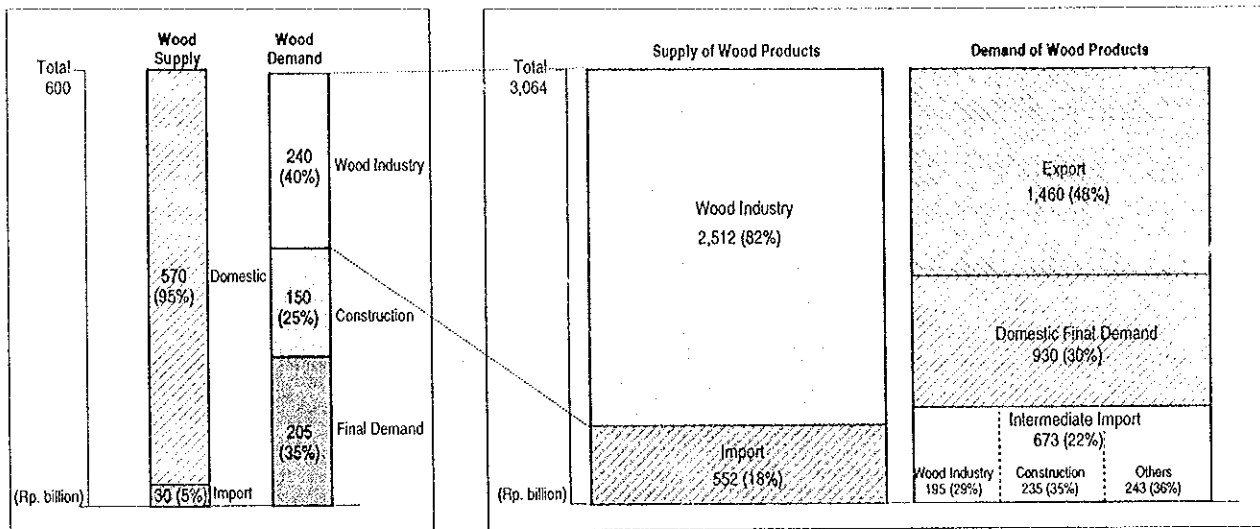
Finally, the two services subsectors, the government administration & defense subsector and the business services subsector, also have typical structures of input. In both subsectors, value added is almost only one input component. The amount of output of the government administration & defense subsector was equal to its value added, and 96% of which was directed to wages and salaries. The business services subsector, on the other hand, had a 99% share of value added in the total input, and a half of which was paid for the labor cost and a portion of 42% was directed for the business surplus. These two subsectors are a kind of genuine services sector, which uses least intermediate input and maximizes the value added.

1.2.4 Economic Impacts of the Rapid Decrease of Wood Supply in West Kalimantan

In West Kalimantan, the amount of wood production in value, which is represented by the wood subsector in the 1995 I-O tables, was Rp.569.8 billion, and the import from other provinces was Rp.30.3 billion in the same year. This means the total supply of wood was Rp.600.1 billion and the import share was only 5% in monetary terms. Among the 50 economic subsectors of West Kalimantan, the wood subsector was placed sixth in output and fourth in value added, the latter of which amounted to Rp.467.3 billion, 6.2% of GRDP of the province.

The demand of wood, on the other hand, was composed of the wood industry (Rp.239.8 billion; 40%), the construction (Rp.149.6 billion; 25%) and the domestic final demand (Rp.204.6 billion; 34%) of which more than 90% was consumed by the private sector. Therefore, these three would surely be the most affected subsectors directly by the decrease of wood supply in West Kalimantan.

Figure 1.2.1 Supply and Demand Structure of Wood and Wood Products



Source: JICA Study Team

The wood industry, which is composed of plywood, furniture and other wood products, and which requires wood as a primary input, produced Rp.2,511.9 billion in 1995, which was in first place in output among the 50 subsectors and shared 19.1% of the total output of the province. As for the contribution to GRDP, this subsector scored 14.0% of the total value added, which was in second place, following to the wholesale and retail trade subsector (21.5%). Although the wood industry is a representative industry in West Kalimantan, they also imported products of the same group from other provinces, which amounted to Rp.551.8 billion, more than 20% of the domestic production. The major destinations of wood products altogether are 1) export (Rp.1,463.6 billion, 48% of the total supply), 2) domestic final demand (Rp.926.8 billion, 30%) of which the private consumption dominates 21% and the capital formation is 7%, and 3) intermediate input (Rp.673.4 billion, 22%). As an intermediate input, again, the wood industry and the construction subsectors demanded Rp.194.9 billion (6.4%) and Rp.235.0 billion (7.6%), respectively.

The construction subsector, which consumed both wood and wood products as major inputs, is also an important economic subsector in West Kalimantan. The output value of the subsector was in third place (Rp.1,466.5 billion, 11.1% of the total provincial output), and its value added scored fifth (Rp.438.9 billion, 5.8% of GRDP) in 1995. Its cost structure is prominent in the high proportion of labor cost, which amounted to 45% of the total value added of the subsector.

If the supply of wood decreases quite rapidly, the price will go up depending on the market conditions of plywood export, domestic construction and other wood products including wooden furniture, moldings, etc. Because the wood subsector includes all the wood produce,

i.e. logs for plywood, logs for construction materials and furnitures, and those for other usages, it is difficult to measure the overall impact of the decreasing supply of wood on other sectors of the economy quantitatively. However, in the following, we set certain assumptions and examine some effects of the shrinkage of the wood industry in West Kalimantan.

According to the 1995 I/O table, the total spreading power of the wood industry is calculated as 1.9258. This means one unit increase of final demand for this subsector increases other subsectors' output as well as its own production, and that the entire increase of the output will be 1.9258. Thus it can be said conversely that the reduction of the export of wood processing products would induce the 1.9258 times of total output decrease. The impact on each subsector is shown by the 21st column of the Leontief matrix. Checking these multipliers, the most affected subsectors would be the wood industry itself (1.1127 times), the trade (0.2246), and the wood subsector (0.1084), then followed by the oil industry (0.0558), the chemical industry (0.0540) and the rubber industry (0.0487).

1.3 EXISTING PLANS AND OPPORTUNITIES

1.3.1 REPELITA VI and PJP II

(1) West Kalimantan

The target of economic development of West Kalimantan for PJP II period is 10.3% growth per annum. For the period of REPELITA VI, the expected average growth rate was originally fixed at 8.7% per annum, however, with the actual performance better than the target level during the first two years of the period, this target was shifted up to 10.9% on the average. According with this new target figure, the sectoral growth rates were also adjusted, namely: agriculture 6.41%, mining and quarrying 28.33%, manufacturing industry 11.17%, electricity and water supply 28.43%, construction 16.21%, trade, hotel & restaurant 9.87%, transport & communication 12.36%, finance, rent & business services 17.81%, and services 16.66%.

Under this target of growth, the GRDP per capita is expected to reach Rp. 3,458,183 by the end of REPELITA VI, with employment at 1,852,984, which will absorb 98.5% of the workforce.

In order to achieve the target, the economic development policies are directed at increasing the efficiency and productivity of the priority sectors in which include agriculture, forestry, industry, tourism and mining sectors. In the agriculture sector, the increase of productivity and efficiency as well as diversification of products for export is emphasized especially by means of the "community plantation pattern" (PIR) on palm oil, rubber and oranges. The development of the forestry sector is focused in maintaining Sustainability, availability and expansion of a variety of forest produces and in supporting industrial development. The industrial development is aimed at promoting export-oriented industry by using the available natural and human resources. Due to the location, the international trade with neighboring Malaysia and Brunei is expected to grow. The tourism industry is still under developed in West Kalimantan. However, it is also expected to increase the income of the province and community, and to create job opportunities. The mining sector will be enhanced by developing the resources, and is expected to bring about the advanced processing industries, especially for gold, bauxite, quartzite and kaolin.

(2) Central Kalimantan

The expected target of economic growth is 8.7% per annum for PJP II period and 9.3% for the REPELITA VI period. To achieve the latter target, the sectoral growth rates are set as follows: food crops 4.3%, other agriculture 4.6%, mining and quarrying 13.9%, manufacturing industry 12.8%, electricity and water supply 10.0%, construction 13.3%, trade, hotel and restaurant

12.1%, transport and communication 10.6%, finance, rent and business services 9.5%, and services 4.5%.

With these target growth rates, the GRDP per capita will reach around Rp.2.8 million by the end of REPELITA VI, with the increase of working opportunities of 3.5% per year. Moreover, the increasing participation of world business and the communities in productive activities is expected as well as the enhancement of labor productivity in the agriculture, industry and services sectors.

The priority sectors for development in Central Kalimantan are same as those of West Kalimantan. Industrial development is expected to be export-oriented and integrated with agriculture and forestry products. In the agriculture sector, rice self-sufficiency is stressed, as well as the diversification of export products. The forestry sector is aimed at ensuring continuity and to support industrial development. The tourism and mining sectors are also focused as priority sectors, and the concept for development is the same as in West Kalimantan.

1.3.2 KAPET

In the State Policy Guideline (GBHN) of 1993, it was stipulated that the development in Eastern Indonesia be accelerated. To implement the guidance of the GBHN, the Eastern Indonesia Development Council (EIDC) was formed in 1993 by Presidential Decree No. 120 of 1993. To accelerate the development of high potential zones and mainstay sectors, a KAPET (Integrated Economic Development Zone) in each province of Eastern Indonesia was selected, with special investment incentives were by the Presidential Decree No. 89 of 1996. The main contents of which are the following:

- Imports of capital goods and other equipment needed for production are free of the value added tax and luxury sales tax.
- Taxable items may be transferred for further processing into a KAPET from other KAPET, free of the value added tax and luxury sales tax.
- Taxable items may be transferred for further processing between companies located within the same or different KAPET(s), free of the value added tax and luxury sales tax.
- Taxable items may be transferred for further processing between companies located in a KAPET and companies in Bonded Zones free of value added tax and luxury sales tax; or may be transferred for further processing between companies located in a KAPET and companies in a different Customs Office District, free of value added tax or luxury sales tax, if the items thus processed return to the KAPET.
- Imports of capital goods and other equipment directly connected with production are free of Article 22 Income Tax.
- Accelerated depreciation and amortization for Income Tax purposes.
- Loss carry-forward for up to 10 years.
- Reduction of Article 26 Income Tax on dividends, of 50% of the assessed amount.
- Payments in kind to employees are acknowledged as a production expense rather than as employee income. The costs incurred in developing the vicinity for the public good is also acknowledged as a production expense.
- Licensing facilities.

(1) KAPET Sanggau

The Sanggau district was defined as the strategic area of West Kalimantan because of the following reasons. First is its strategic location. Sanggau is located in the midst of the province, and possesses direct access to Malaysia through Entikong, where the mobilization of people and goods will keep rising. Besides, the development of the Trans Kalimantan Highway (south axis) which passes through the Sanggau district, especially through Tayan (92km from Pontianak), will drive the development of economic activity of the province. Therefore, the Sanggau area will play an important role as the regional commercial center as well as the trade center with Malaysia by land. The second reason to be defined as the strategic area is the performance of its economic growth. Its average growth rate during REPELITA V was 9.89% per annum, far above the provincial average of 6.55%. The third is that the area has a large potential in natural resources for industrial timber estates and oil-palm plantations and mining, especially the bauxite deposit which is estimated to be more than 400 million tons. The detail of the bauxite development project is discussed in the sector report on mining.

The most likely engine of the scenario for economic development is the “resource based industry”. In line with the spatial strategy, the sectoral strategies for KAPET Sanggau are formulated for the sectors of agriculture, forestry, trade, industry, mining and energy, transportation, water resources, and urban and rural development. To attain the objective of equalization of development, it is required to refer to the following principles.

- 1) Each sector is to be developed in the framework of upstream-downstream relations to get the greatest value-added.
 - The development of palm-oil plantations should be followed by CPO and PKO plants.
 - The development of rubber plantations should be followed by crumb rubber plants.
 - The bauxite mining should be followed by an alumina plant.
 - The HTI development should be completed with a pulp plant.
- 2) Transfer of science and technology to the local community

The PIR pattern can be applied in different commodities, not only palm-oil, but also rubber, HTI, cocoa and durian.

- 3) Development of the local community

The development of large-scale business should contribute to the local community, for example the local environment.

- 4) Partnership in development with the local people

Large-scale development should involve the local community in its production chain. For example, “chemical alumina” in Tayan will need 1,000 tons of tapioca flour per annum. The farmer communities in Sanggau are given an opportunity to supply these needs.

5) Development of local human resources

Development projects use and enhance the local human resources. It means upgrading the welfare of the local community and increasing the human resources index. Human resources development is carried out under the formal education line, such as SMP in agriculture, SMK in industrial technology, and BLK in extension and training of practical skills.

(2) KAPET DAS-KAKAB (Kapuas-Kahayam-Barito River Catchment Area)

Central Kalimantan was appointed to become one of the Indonesia’s major rice producers. The reason is that the rice production has centered on Java so far, but that there is a rapid decline of the rice field area because of the industrialization and urbanization in recent years. This trend is ongoing. Thus, it is no surprise that, after year 2000, there may occur a severe food shortage in Indonesia. The government has initiated a massive plan to develop a million ha of arable land in Central Kalimantan, with the supporting infrastructure now under construction. This huge agricultural project is the core of this Integrated Economic Development Zone. The technical and social aspects of this project will be discussed in the Agriculture section.

Other substantial sub-sectors are forestry, the development of timber estates and the plantation of estate crops. It is expected that the large-scale development of agriculture and agribusiness will offer the opportunities to downstream industries. In the past, the limited infrastructure, especially the lack of adequate roads, hampered economic activities. Now a new road is being built, which will link Kuala Kapuas, Palangkaraya and Buntok.

(3) Natuna Island Development

Natuna Island is where West Kalimantan can take advantage of its geographical proximity to supply goods and services to this new market. It was approved as a KAPET (Integrated Economic Development Zone) by Presidential Decree No. 14 in October, 1996, though it belongs to the Riau province, in Western Indonesia. With the core project of the famous natural gas development in the north of the island, the development of the island itself was decided by the government. The island has about 30 thousand inhabitants and an area of 160,000 ha which is four times larger than that of Batam Island. It would provide a good opportunity for business and employment for the study area, once the development plan is realized.

The development of the largest natural gas reserve, located in 230km north of the island, is planned to start in 1999. The project is expected to supply natural gas to Java, Thailand and Japan. The contract with Thailand was under negotiation in July, 1997, however, it was suddenly suspended because of the currency crisis which first started in Thailand. It is said that even if the natural gas project is postponed for some years, the island's development would be implemented in the near future as a KAPET.

The development committee of the island (BP3-Natuna) was set up in BPPT when it was approved as a KAPET, the secretariat of which is headed by the executive director Mr. Maryono of the Navy and has 25 planning staff. The master plan study is now being conducted and will be finished by the end of the fiscal year 1997/98. The final year of the plan is supposed to be 2020.

1) Basic Concept

Along with the development of the offshore natural gas project, Natuna Island is planned to be developed with some strategic industries, such as an LNG plant, basic chemical industry and natural gas utilizing industries, ship building and maritime industries and electronics industries. Accordingly, the supporting infrastructure is to be planned, such as power plants which utilize the natural gas, an industrial and commercial harbor, roads and airport. The development budget for road construction in 1998/99 is to be prepared by the Ministry of Public Works.

At present, the island has some 30 thousand inhabitants, and their major income source is from fisheries. The offshore area around Natuna Island is a rich fishery zone and many fishing boats from the neighboring countries are also operating in this zone. Another important economic activity is the newly started oil-palm plantation. Some plantation projects with transmigration have already started independently of the KAPET assignment. Thus the agro-industries which

process the produce from food crops, plantations and others are also involved as pillars of economic activities in the island.

2) Expected Impacts on West Kalimantan

Due to the geographical proximity of West Kalimantan, Natuna island development as a KAPET will offer the people and business society of the study area several opportunities to participate in the island's development activities. West Kalimantan will be expected to supply the logistics for the island. The demand for foodstuff is inevitable and will encourage the food processing industry in the north-western part of West Kalimantan where horticulture is well developed in the province. There will be many types of services such as trade, transport, health services and education, etc. which will be in demand to support the economic and social activities on the island and the new communities. Also, in the phase of infrastructure construction on the island, materials and services of construction work will be in demand. The construction sector of West Kalimantan will have a good field of work but should be competitive with contractors from other parts of the country.

1.3.3 Sub Regional Linkage

To promote outer islands' development, several international collaborations are ongoing based on geographical proximity and complementarities of resource potentials of the regions. Those are IMT-GT (Indonesia, Malaysia and Thailand-Growth Triangle), IMS-GT (Indonesia, Malaysia and Singapore-Growth Triangle), BIMP-EAGA (Brunei, Indonesia, Malaysia and Philippines-East ASEAN Growth Area) and AIDA (Australia and Indonesia Development Area). Among them, the study area, the West and Central Kalimantan provinces, is included in the BIMP-EAGA. Another important relationship with neighboring countries is between Sarawak, Malaysia and West Kalimantan, Indonesia through the shared border.

The major constraints of such international collaboration to promote trade, investment and in turn employment, are in terms of institution, laws and regulations, human resources, and infrastructure and facilities. The Indonesian government is making the following efforts:

- to improve policies and procedures to make the country's border crossing easier,
- to decrease "tariff and non-tariff barriers" for the products required in the collaboration, as soon as possible, and
- to increase investment incentive, especially for foreign investment to the industrial development areas.

However, compared to the neighboring countries, some problems specific to Indonesia are pointed out. For example, investment incentives are not sufficient - Indonesia does not offer income tax incentives which raises effective average tax rates. Another problem is in the

investment approval process, more precisely, the post-investment licensing system which is a cause of delays. Other constraints are the framework for the protection of intellectual property rights (IPRs), and common standards in terms of metrology, standards, testing and quality (MSTQ). Relating to the differences in the export incentives and trade procedures, and the lack of credit especially for small and medium enterprises (SMEs). Now the following four issues of development programs are under consideration;

- improvement of human resource quality,
- collaborative research and technology development,
- investment promotion by simplification of procedures and coordination, and
- environmental management for sustainable natural resource utilization.

(1) BIMP-EAGA

Here the concept and the results of the ADB study on “BIMP-EAGA” is briefly introduced. The vision of the Brunei Darussalam-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) is the realization of socially acceptable and sustainable economic development which leads to the full participation of EAGA in the ASEAN development process. In order to realize the vision, a more specific goal was set, i.e. to make EAGA a major location in ASEAN for high value agro-industry, natural resource-based manufacturing, and tourism in the short to medium term; and in the longer term for non-resource-based industries. To achieve these goals, strategic objectives are defined as to accelerate private sector-led economic development, improve export competitiveness and enhance the attractiveness of EAGA to local and foreign investment based on (i) economic complementarities, (ii) shared natural resources, information and technology, (iii) joint action to cater to an increase in demand, (iv) joint action to overcome constraints, and (v) specialization and regionalization of production.

The investment opportunities can be characterized as follows:

- cross-border collaboration in order to exploit shared natural resources (e.g., value-added processing of agricultural produce, tourism, or shared power generation and distribution);
- investment opportunities related to the gradual increase in economic activity and consumer demand in EAGA (e.g., construction, services and “spill-over” manufacturing such as metal working and ship repair);
- investment opportunities resulting from differences in labor costs, skills and other attributes (e.g., labor-intensive manufacturing which may relocate from labor-scarce to labor-abundant parts of EAGA);
- opportunities based on technological transfer between EAGA subregions or from outside of the area, and the joint use of research and development efforts and shared information.

As a strategy to improve the general environment for economic cooperation and development by empowering the private sector, the following points need to be strengthened:

- Facilitative Policy Framework - the coordination and harmonization of public policy to establish a conducive and unified investment climate
- Adequate Physical Infrastructure - linking the businesses of the subregions and improving access to regional and global markets
- Effective Commercial Infrastructure - finance, information and skills to establish entrepreneurial capacity and capability

The next step is to encourage the realization of cross-border trading and investment opportunities directly based on:

- Specific Productive Sector Policy, Program and Project Measures - the adoption of policy adjustments, program measures and specific projects that directly encourage increased investment in the productive sectors

In the ADB study, the indicative investment opportunities are given by sector and the EAGA subregion. In West Kalimantan the following are identified as opportunities. (Though Central Kalimantan and other provinces of Sulawesi were included in EAGA lately, only East and West Kalimantan and North Sulawesi are covered in the report.)

- Agriculture: oil palm plantation and citrus processing
- Forestry: pulp and paper manufacture
- Tourism: eco-tourism
- "Spill-over" manufacturing based on an increase in economic activity: construction materials, timber & wood products
- Resource-based industries: value-added wood processing, rubber products, organic fertilizers

(2) Sarawak and West Kalimantan

A land gateway between Entikong in West Kalimantan and Tebedu in Sarawak was opened in 1992. Since then the number of visitors and the trade through the gateway have expanded year by year. Back in 1984, a border crossing agreement was made between Indonesia and Malaysia. Based on this agreement, crossing passes are issued for citizens of both countries residing in the immediate area of the border. Holders of West Kalimantan residential identity cards are exempt from paying the full departure tax when crossing the land border. West Kalimantan residents are privileged to pay Rp.50,000 when they leave for Malaysia, although the departure taxes were raised to Rp.1 million for air, and Rp.500,000 for sea and Rp. 200,000 for land in February, 1998. Malaysians using a border pass to cross into the

Indonesian territory are allowed to spend 3,000 ringgit. Non-border residents are not allowed to engage in trading activities and cannot fully enjoy the facilities that the gateway offers.

The border trade is still traditional in nature. Indonesian clove cigarettes, batiks, garlic and durians sell well in Malaysia, according to a Malaysian trader. From the records of the Entikong customs and excise checkpoint, Rp.3 million to Rp.4 million can be pocketed daily from the imposition of customs and excise duties on goods traded at the official gateway alone, and even more is collected at illegal entry points.

The number of foreign visitors to West Kalimantan through the Entikong gateway was 9,015 in the first six months of 1996, of which 8,269 of them were Malaysians. The foreign tourists by air during the same period were 4,085, on the other hand. The Entikong gateway helped promote Indonesian tourism as well.

1.4 ISSUES FOR DEVELOPMENT

1.4.1 Issues of the Provinces

(1) West Kalimantan

In West Kalimantan, the capital city and its surrounding district dominate more than half of the provincial economy, and enjoy a higher per capita income compared with other districts. The development of the rural area is a key issue so that the majority of the population can improve their quality of living and prevent further economic concentration in the Pontianak area.

The forestry-based industries are on a turning point because of the diminishing supply of logs. Therefore, the industrial reconversion of this sector is an urgent task. In addition, it is important to set up labor absorbing industries, not necessarily the large-scale conventional labor intensive industry.

West Kalimantan has some geographical advantages for outside markets, such as the border trade with Malaysia and Natuna island which will be newly developed as a KAPET, other than existing export markets like that of Java. It is recommended to prepare for these new opportunities by modernizing the production and supporting systems and improving the quality of products and services.

(2) Central Kalimantan

In Central Kalimantan, it has been pointed out that there is a big economic difference between the eastern and western parts of the province. About 70% of the provincial GRDP is contributed by the three western districts, namely Kotawaringin Barat, Kotawaringin Timur and Kapuas. These districts form their own economic areas rather independently, and have their own river transport system and a sea port in each district which connect their economic activities directly to Java. On the other hand, the eastern part of the province, namely Barito Selatan, Barito Utara and Palangkaraya, is economically related with Banjarmasin, the capital of South Kalimantan, through the Barito river. They are an "inland" area, and the related economic activities such as processing and trading of their products are brought outside the province. However, there is no significant difference in the per capita income between the eastern and western areas. This is because this "inland" area has some profitable economic activities such as mining, especially gold mining.

Another point is that there is an economic gap between the remote areas in the northern part of the province and the coastal areas. The "inland" areas, not only in the eastern part of the

province but also in the northern area of the western districts, are in a position of simply supplying products of natural resources, while the other economic activities like industry and trade are concentrated in the southern areas, especially in the commercial centers of each economic area. Moreover, the economic linkage across the areas, separated by independent river systems, is rather weak. This is due to the insufficient road system connecting the districts especially in the upland area. This kind of simple economic structure of the north and south within the province should be changed. In order to improve the economic position of remote upland areas, the development of urban centers will be indispensable.

1.4.2 Economic Crisis and IMF Package

(1) The current economic crisis

Since July of 1997, the rupiah has fallen from the level of Rp.2,350 to U.S. dollar to the Rp.8,000~10,000 level, and is still in an unstable condition in spite of the agreement with the IMF on economic reforms in the middle of January. This drastic decline of exchange rate brought the Indonesian economy to an unprecedented turmoil which might hinder the country's development for a while. The average economic growth between 1993 and 1996 was 7.1% annually, while the rate of 1997 is reported to have dropped to 4.7%. This crises would involve the bankruptsy of many Indonesian companies, price hikes and after all a shrinkage of economic activities.

The immediate impact of the monetary crisis is on the foreign debtor corporations. The country's foreign debt of the private sector amounts to US\$73.96 billion, \$23.07 billion of which is owed by private Indonesian companies while the remainder is owed by foreign firms and joint-venture companies. The rupiah's more than 70% fall in value since July has virtually halted all foreign interest and principal payments by Indonesian debtors. (They say this is a "freeze", not a "moratorium".) There are 228 companies which have foreign loans of over \$50 million, while around 700 owed less than \$50 million. To tackle this problem the Corporate Foreign Debt Settlement Team was established in February. With the help of the Team, the Contract Committee, representing about 1,000 Indonesian companies, has started negotiation with a steering committee of foreign lenders.

The next but widely spread impact of the crisis is inflation. The monthly inflation rate in February recorded 12.76%, while that in January was 6.88%. Accordingly the cumulative inflation rate for the 11 months of the 1997/98 fiscal year reached 28.73%, much higher than 5.29% in the corresponding period of the previous year.

Table 1.4.1 Recent Inflation Rates

Groups	January	February	April - February, 1997/98
General	6.88	12.76	28.73
1) Food	10.15	16.07	40.68
2) Housing	3.64	10.03	19.29
3) Clothing	12.56	15.62	33.91
4) Miscellaneous Goods & Services	4.16	9.31	20.59

Source: BPS

It is worried that the currency crisis might shoot this year's inflation rate to a level of 40% to 50%, although the government projection of the inflation for the next fiscal year is 20%. According to the economic reform program agreed with the IMF in January, the subsidies will be eliminated gradually after the presidential election. This implies another set of price hikes particularly caused by the price increases of diesel and kerosene fuel in April. The strong inflation pressure makes the people's life more difficult.

In order to alleviate these problems, it is needed to stabilize the exchange rate of rupiah. Since it is difficult to recover the market confidence in the current situation, the government is now discussing the set up of the currency board system which pegs the rupiah to the U.S. dollar at the rate of 5,000 - 5,500.

(2) The IMF Economic Reform Package

President Soeharto and the IMF reached an agreement on the economic reform program which was supported by the IMF. The main points are the following:

1) The macroeconomic framework for 1998

- The rate of economic growth be 0%.
- The inflation rate will be 20% for 1998, and single-digit level for the next year.
- The external current account balance is expected to move from a deficit to a sizable surplus.
- The growth of broad money is limited to 16%.

2) The revision of the 1998/99 budget and the tax raise

- Adhere to the balanced-budget principle.
- Permit a deficit of the budget of about 1% of GDP.
- Account to the budget for the Reforestation and Investment Funds.
- Phase out the subsidies by raising both fuel and electricity prices, starting on April 1.
- Increase the excises on alcohol (80%) and tobacco (10%), starting July 1.
- Remove VAT exemptions on goods such as electricity for private companies, taxis, soybean feed for cattle, sugar, personal goods, medical equipment and other machinery and capital equipment, starting April 1.

- Impose a 5% local sales tax on gasoline, starting April 1.
- Expand the range of goods subject to luxury sales taxes.
- Raise the annual tax audit coverage. Develop improved VAT audit programs. Increase recovery of tax arrears.

3) The public sector projects

- Cancel the 12 infrastructure projects that were recently postponed or placed under review.
- Discontinue any budgetary and extra-budgetary support and credit privileges to IPTN projects.
- Discontinue any special taxes, customs or credit privileges to the National Car
- List 12 state enterprises in the first year, selling controlling or even complete stakes to the private sector. Sell more shares of state companies already listed.
- Set clear profit and performance targets on all remaining state companies, eventually closing nonviable enterprises.

4) The monetary policy

- Give the Bank Indonesia full autonomy to conduct monetary policy.
- Formulate specific plans to assist the banking system.
- Amend Banking Law to allow full privatization of state banks.
- Tighter supervision of commercial banks.
- Lift restrictions on branching of foreign banks by February.

5) The structural reforms

- Limit Bulog's monopoly to only on rice. Permit flour millers to sell or distribute flour to any agent from Feb.1. Allow all traders to import sugar and sell it domestically. Release farmers from formal and informal requirements to plant sugarcane.
- Allow traders to buy, sell and transfer farm products - including cloves, cashew nuts, oranges and vanilla - across district and provincial boundaries.
- Abolish local content rules on dairy products from Feb. 1.
- Dissolve all formal and informal restrictive marketing arrangements for cement, paper and plywood as of Feb. 1. Eliminate internal and external trade restrictions on cement.
- Remove restrictions on foreign investment in palm oil plantations on Feb. 1, and on wholesale and retail trade by March.
- Abolish import restrictions on all new and used ships.
- Phase out export taxes, beginning with leather, cork, and waste aluminum products on Feb. 1. Replace some export taxes with rent taxes to discourage overexploitation of natural resources.
- Set export taxes on logs and rattan at rates not exceeding 10%.
- Lift export ban on palm oil after March; set export taxes on palm oil at rates not exceeding 20%.
- Eliminate all types of export restrictions, such as quotas, within three years, unless for health or security reasons.
- Abolish all retribusi (local taxes) at all levels on export goods.

6) Measures for the current severe drought

- Cut import tariff on food items to a maximum 5%.
- Cut tariff rates on non-food agricultural products by 5% points.

(3) The revised 1988/99 state budget

Corresponding to the IMF request, the government announced a revised budget for the 1998/99 fiscal year on January 23. Based upon the macroeconomic framework suggested by the IMF,

the government set the assumed growth rate at zero and the inflation at 20%, revising from the 4% growth and 9% of inflation rate of the original draft budget presented on January 6. Another major change of projection is on the exchange rate from Rp.4,000 to Rp.5,000 against U.S. dollar. Key among the revised figures presented is a cut in fuel subsidies to Rp.7.45 trillion from the previous estimate of Rp.10.08 trillion. All the other figures in the new budget are basically similar to the previous ones. Compared with the fiscal year 1997/98, the grand total of the budget is 45.6% higher, and the foreign debt service is doubled in the new budget due to the depreciation of the rupiah. Non-tax revenue is projected to increase 74% because all the departmental revenue, including reforestation funds, is now counted in the state budget.

Table 1.4.2 1997/98 State Budget and Revised 1998/99 Draft State Budget (Rp billion)

REVENUES	1997/98	1998/99	%change	EXPENDITURES	1997/98	1998/99	%change
A. DOMESTIC REVENUES		114,965.8	30.6	A. ROUTINE EXPENDITURES	62,158.8	97,829.1	57.4
I. Oil and natural gas	14,871.1	34,581.7	132.5	I. Civil services	21,192.0	22,591.2	6.6
1. Oil	10,688.2	24,060.9	125.1	1. Salaries/pension	17,048.4	17,405.7	2.1
2. natural gas	4,182.9	10,520.8	151.5	2. Rice allowances	1,309.5	1,588.2	21.3
II. Non-oil and non-gas	73,189.6	80,384.1	9.8	3. Food allowances	1,233.7	1,484.4	20.3
1. Income tax	29,117.7	25,618.0	-12.0	4. Other benefits	1,009.9	1,154.6	14.3
2. Value added tax	24,601.4	27,872.0	13.3	5. Diplomat services	590.5	958.3	62.3
3. Import duties	3,321.7	3,562.0	7.2	II. Goods procurement	8,895.2	10,908.7	22.6
4. Excise tax	4,436.3	4,922.0	10.9	1. Domestic	8,478.0	10,059.7	18.7
5. Export tax	100.0	115.0	15.0	2. External	417.2	849.0	103.5
6. Property tax	2,505.0	3,411.0	36.2	III. Subsidies to regions	11,535.8	12,283.9	6.5
7. Other taxes	632.5	540.0	-14.6	1. Personal expenses	10,967.8	11,600.7	5.8
8. Non-tax receipts	8,225.8	14,344.1	74.4	2. Non-personal expenses	568.0	683.2	20.3
9. Fuel sales profit	249.2	0.0	-100.0	IV. Debt service payment	19,570.9	39,740.1	103.1
				1. Domestic	334.2	1,940.1	480.5
				2. External	19,236.7	37,800.0	96.5
B. DEVELOPMENT REVENUES		32,255.0	147.6	V. Other expenditures	964.9	12,305.2	1,175.3
I. Program aid	13,026.0	8,500.0	0.0	1. Petroleum subsidies	0.0	7,453.0	0.0
II. Project aid	13,026.0	23,755.0	82.4	2. Others	964.9	4,852.2	402.9
TOTAL	101,086.7	147,220.8	45.6	B. DEVELOPMENT EXPENDITURES	38,927.9	49,391.7	26.9
				I. Rupiah financing	25,901.9	25,636.7	-1.0
				II. Project aid	13,026.0	23,755.0	82.4
				TOTAL	101,086.7	147,220.8	45.6

Government's savings
 1997/98 State Budget: Rp 25.90 trillion
 1998/99 State Budget Plan: Rp 17.13 trillion