CHAPTER II

CONDITIONS FOR SUSTAINABLE GROWTH (FROM THE ASPECT OF LOCAL DEVELOPMENT)

by

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1. INDUSTRIAL CONSOLIDATION UNDER MACROECONOMIC GROWTH

The Indonesian economy has grown by more than 7 per cent per year after the establishment of the New Older and will most probably continue this growth into the 21st century. The factors of growth were generally similar to those of other East Asian economies as elaborated by the World Bank in its report 'the East Asian Miracle'.[1] They are:

a. More rapid output and productivity growth in agriculture,

b. Higher rates of growth of manufactured exports,

c. Earlier and steeper declines in fertility,

d. Higher growth rates of physical capital, supported by higher rates of domestic savings

e. Higher initial levels and growth rates of human capital, and

f. Generally higher rates of productivity growth.

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1 World Bank, *The East Asian Miracle, Economic Growth and Public Policy*, A World Bank Research Report, Oxford University Press, 1993.

From the macro-economic point of view, the World Bank's analysis is reasonable as the Gross Domestic Product (GDP), on the base of constant prices of 1983, rose by 330 per cent from 1983 to 1992. The growth rates of sectors in same period are 277 percent in agriculture, 200 percent in mining, 545 percent in manufacturing, 601 percent in electric power, gas and water, 355 percent in construction and so on. In the expenditure of GDP, Gross Domestic Fixed Capital Formation also increased by 159 percent, calculated on the base of constant prices of 1983, from Rp 22,596.8 billion to Rp 35,907.3 billion. This good performance in the macro-economy was driven by the notable expansion of exports, technology development supported by an adequate supply of well educated human resources, flexible adjustment and formation of economic policies by the administrative institutions.

With regard to the last factor of economic development, the World Bank report mentioned above concluded that 'Most of the Policies that the HPAE's (high-performing Asian Economies) used reflected sound economic fundamentals: they enhanced the activities of markets, helped prices communicate information about relative economic costs, and fostered competitive discipline'. The Bank also stated that 'so the fact that interventions were an element of some East Asian economies' success does not mean that they should be attempted everywhere, nor should it be taken as an excuse to postpone needed market-oriented reform'. The HPAE's which include eight East Asian economies, one of which being Indonesia, all adopted so called interventionist policies even though their characteristics of policy making were quite diversified by their own economic conditions.

In the process of macro-economic development, the Indonesian economic structure began to change to an industrial sector driven economy which gives priority to export oriented manufacturing rather than import substitution industry after the beginning of the 1980s when external debt burdens hit Indonesia in the decline of oil export prices and debt-service-ratio which jumped to more than 30 percent. This change was intentionally backed-up by a deregulation policy aiming to construct effective economic structure based on free market mechanism. Though the deregulation policies are still unsatisfactory, private domestic and foreign direct investment incurred rapidly so that the Indonesian economy was to prospected to reach the 'take-off' stage at the end of this century. The World Bank, in its report in 1993,[2] predicted that Indonesia would achieve the one thousand US dollar per capita income in the year of 2000. Whether this prediction will be realized or not depends on whether Indonesia will continuously adopt solid and flexible economic policies to sustain the economic system which is able to adapt effectively to domestic and external uncertainty. As the world market, which has supported the development of Indonesian export oriented economy in the 1980s, is expected to change in volume and quality towards the year 2000, Indonesia has positively adjusted its development strategy by diversifying its economic structure, balancing export and domestic demand for equitable growth, raising the effectiveness of utilizing production factors such as land, labor and technology, financial resources, and so on.

Indonesia, in its experiences of development strategies, renovated its import substitute policy to export oriented policies, especially since the beginning of the 1980s. The reasons for the changes were the decline of oil export revenues, negative pressure of increasing external public debt services' burden on the balance of payments and budgetary expenditures. Furthermore, the frustrating awareness of Indonesian national leaders of their country's late entry into economic modernization compared to other

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2 World Bank, *Indonesian Sustainable Development*, May 25, 1993.

East Asian Economies precipitated the government as well as the private sector to make every effort to induce new economic directions. Actually, the series of radical deregulation policies since 1983, and especially those after 1988, provoked productive investment in the export industry which was supported by flows of foreign direct investments and a liberalized financial system. In this sense, the Indonesian decision to change its strategy to market orientation at the cost of reducing protectionism, which even though was still thought vital, is appreciated as structural adjustments which were well done in the direction of sound development.

2. TOWARDS A BALANCED GROWTH AND CONSISTENT ECONOMIC STRUCTURE

Along with the success of sound macro-economic growth, Indonesia has enlarged its economic structural problems which resulting from growth itself, will obstruct further growth unless they are solved. From the beginning of the era of development, having recognized the importance of the problems, although not in clear concrete matters, the Indonesian government proclaimed the principles of development, the so called 'trilogy of development' which are equity, high growth rate and equity. However, in the reality of economic development, Indonesia could not help but prioritize high economic growth rate. Nevertheless, it has been late in countering problems which hit the two other principles. Those problems are: 1) enlargement of income disparity between rich and poor; 2) economic concentration on Java, especially JABOTABEK (Jakarta, Bogor, Tangerang and Bekasi) area which leaves off the development of other islands; 3) formation of monopolistic conglomerates; 4) environmental deterioration, etc.

These problems are inevitable results of the process of economic modernization which prioritizes free competition and market forces. With reference to Japan's experiences of economic development in the post Second World War period, the problems are not easily overcome by counter-policies of the administrative bodies. Japan, fortunately, could succeed in dissolving the monopoly of so-called 'Zaibatu' holding companies which dominated Japan's economy with military industries before the war. Another success was overcoming industrial pollution, i.e. air pollution by cars and factories' refuse exhaustion, cleaning-up rivers or seas; an example of which is the overcoming of the 'Minamata disease'. The former success was owed to the political order by the US General Head Quarters (GHQ) which was afraid of the revival of the militaristic industries soon after Japan's surrender to the Allies. The latter was the victory of democracy supported by people who were eager to protect their security of living and press down the avarice of big companies which prioritized their own economic profit without respecting their social responsibility. Moreover, the poverty problem was also solved by, firstly, the land reform compelled by the GHQ, secondly, by abundant budgetary subsidies to rice farmers which later resulted in great inefficiency of the agricultural sector, and thirdly, by the ironical consequence of over industrial development concentrated on big cities and the low unemployment rate which leveled the people's income.

However, the excessive economic concentration in several big urban areas seems to be an unsolvable problem. Despite the fact that many companies relocated their production factories to rural areas because they could not easily find low priced land with good infrastructure near the industrialized zone and could not adapt to the strict restrictions of anti-pollution in urban areas, the Japanese economy was still not able to widely decentralize to local areas. The local governments of every prefecture, city, village, etc, made every effort in their own capacity to promote investments i.e. by giving financial incentives, constructing industrial estates and so on. Although their efforts brought positive consequences to industrial development in many local areas, areas whose population had evacuated were still left behind. It is fair to say, however, that the disparity between the developed pole and the less developed periphery was narrowed. The reasons, among others, are as follows:

a. Regarding the production factors, the factories, both from local or other areas, investing in periphery areas were able to get financially incentived capital and low-priced and well-equipped land for the construction of factories. Nonetheless, they faced difficulties in recruiting qualified skilled laborers with relatively low wages because the most of the school graduates were attracted by the high wages and affluent living conditions in big cities.

b. Though some factories intended to relocate to local areas, they rarely moved their headquarters from Tokyo or Osaka which obstructed the corporate income tax from flowing into the local areas. Instead it went into the big cities and hence did not support local budgetary autonomy.

c. There was a structural problem relating to the supporting industries. One of the characteristics of Japanese company management commonly known as 'Kanban Hoshiki' is the timely supply system of raw material by supporting factories to the main producers. This system aims at economizing the production cost by cutting-down costs of storages, transportation, handling and so on. To keep the system effective, the supporting factories were required to transfer to places in the vicinity of the main producers. Unless main producers assisted financially or technologically the relocation of those supporting factories whose management capacity was very weak, the former would have to seek other cost ways reduction or to transfer the production bases to the periphery. And, as the most of supporting factories were small and medium sized companies, they were reluctant to move or invest in other regions even though they depended heavily on the parent companies.

d. The excessive political and administrative concentration in Tokyo also caused economic concentration. Because Japanese economy is bound to the government leadership which controls the vital information, big companies have to have headquarters in Tokyo to ensure the smooth running of their management. On the other hand, the companies located outside Tokyo also had to move the headquarter roles to Tokyo, while they were located in the second biggest city, Osaka. To get government subsidies, investment permits, trade quotas and other which are held by central government, the companies placed less priority on their activities in local regions other than setting up complementary production factories. Recent trends of relocation of complementary bases after the appreciation of the Yen currency to other key currencies precipitated them to construct factories abroad where they could obtain the comparative advantage from lower paid labor rather than in local areas in Japan.

e. Finally, the local government and local economic circles themselves reconsidered the development strategy. The local governments, except for a few rich governments, were reluctant to recognize the weakness of over dependency on central subsidies which, despite the fact that the share of subsidies in the local budget was less than 50 percent, restricted the local government's autonomy in decision making by having to adhere to the conditions of the central government on the objectives and ways of budgetary expenditure. The weak initiatives of local governments in development reflect the deficiency in entrepreneurship of local companies; even though, recently, some innovative local leaders began to grow, however unsatisfactorily yet, by standing on their own feet at local bases. If local enterprises develop independently of huge companies and local governments are able to enjoy more fruitful autonomy, new directions of development in the local regions will be opened.

Although Japan's experiences of economic development does not easily apply to the case of the Indonesian economy, it is useful to refer to them.

In the last two decades, despite the fact that growing rapidly the Indonesian economy changed its structure, basic problems similar to those encountered in the experiences of Japan and other East Asian countries remain to be solved. They are among others:

a. Although the Indonesian economy developed, the absolute poor are still accounted for 27 million people in 1992. The problem of absolute poverty, the top prioritized problem to be tackled by the government, is expected to disappear in the early period of the next century when the Indonesian economy is projected to take-off and per capita national income has reached 1,000 US dollars (if accounted in the constant prices of 1992) in the year 2,000 as predicted by the World Bank. As the rough estimate of per capita income in 1993 was US$ 670, Indonesia has to raise its growth rate more than 9 percent per year in real terms with the population increasing at a rate of under 2 percent. This assumption is much higher than the targeted annual economic growth rate of 6.2 percent in the Sixth Five Years Development Plan (REPELITA VI) But as the poverty problem is spread all over Indonesia, in rural areas as well as urban areas, it will not be solved by unitary methods which only increase macro-economic growth rate because a high growth rate itself might be a catalyst which widens the disparity of income and is thus not an effective tool for the solution of the poverty problems. To decrease poverty, Indonesia has to promote a balanced development between quantitative growth represented by volume of Gross Domestic Production of per capita National Income and qualitative development assuring prosperity and equity for the people as noted in the 'Trilogy' of the National Guidelines (GBHN).

b. The awareness of the negative impact of the environment problem on long term Socio-economic development is still so low in Indonesia that effective policies to counter industrial pollution and destruction of natural environment have not been aggressively adopted. The destruction of the environment is often caused not only by ill-activities of morally degraded companies but also by ordinary social and economic activities in the daily life of the people. The cost burden of dealing with environmental problems is seized so heavily on Indonesian society and its economic development that Indonesia could not help but eliminate it from its development policies. The problem is how and who will pay the added cost for environment protection?

c. Although abundant unemployment pressed down the national wage level which help to strengthen comparative advantages of labor intensive export industries, the labor market mechanism is still a far cry from a well working system because the economic market itself has lost the opportunity to create or recruit skilled labor by prioritizing the extensive use of low-paid laborers and low technology. This imperfect labor market could be improved by a large volume of demand for employment on the condition that the supply of labor is absorbed orderly into the market and is not a mere out-flow from the over populated and poor rural regions. The problem of labor is typically found in Java because the population there cannot sustain their livelihood with their small holdings of agricultural land which also do not work efficiently as a production factor in the market. Compared to the Japanese experience in the two decades after the World War in which wages tended to level by successful absorption of the surplus labor in the industrial sector, the Indonesian labor market is too oppressed by disguised unemployment, which accounts for approximately thirty million people. In addition, it has not managed to raise wages and narrow income disparity in spite of recent industrial development. In other words, Indonesia has not yet integrated the market of economic factors which has to be urgently formatted by gearing the development notably in the industrial sector, thus, providing new opportunities of employment.

d. The economic concentration on Java cannot be seen as an inevitable result of Indonesian development as a whole. When compared to the Japanese case in which the economy is organically integrated because of its unitary geo-economic characteristics since the Meiji Revolution in the nineteenth century, the Indonesian economy is too diverse in terms of geography, culture, regional economy, etc, to form a consistent integrated domestic market. Recent economic development in Java, especially in the JABOTABEK region, is said to represent the development of the Indonesian economy, which, however, has no organic linkages yet with other regions as a whole. The linkages are shown only in the vertical relations between Java, mainly Jakarta and Surabaya, and other local economic sub-centers such as Ujung Pandang, Manado, Medan and so on where inter-regional economic linkages are yet in embryo. While managemental headquarters tend to center in JABOTABEK area, the economies out side Java have to seek ways to develop by trading directly low value added primary commodities with foreign countries, rather than strengthening inter-insular trade, which consequently will eliminate the disparity of development in the regions.

When observing the Indonesian economic development from the aspect of local development, the economy itself as a whole does not yet form an integrated market and inter-insular economic relations give one-sided benefits to the polar region, Java, which enjoying the role of headquarters is able to transfer financial resources from local regions. To sustain the economic development of Indonesia, it is necessary to build up an integrated market among the regions by constructing a consistent economic structure.

3. THE STRATEGY FOR LOCAL DEVELOPMENT AND THE FORMATION OF AN INTEGRATED MARKET

The Indonesian economy has to develop both the polar and periphery regions in harmony in order to sustain consistent growth. If Indonesia leaves its development to lassez-faire approaches, the disparity will necessarily enlarge because industrialization itself tend to concentrate investments in the most suitable location equipped with good infrastructure, convenient facilities to get access to the administrative bodies which have much of the controlling power, etc.

Here, we have to reconsider the policies based on free market mechanism which are aimed at maximizing the economic efficiency without interventions from the administration and are appreciated in the success of structural adjustments and growth of Indonesian macro-economy. However, from the aspect of long term and consistent economic growth all over Indonesia, it is not enough to rely on free market mechanism only. In Indonesia, the market economy is not fully working and quite lacking in some peripherical regions. This is caused by industrial structure which still being immature shows not only weak sectoral linkages but also incomplete integration of regional economy allowing industrially advanced regions to orient themselves to the international market and leaving underdeveloped regions behind without being enrolled to central or foreign economies.

With regard to local development in Indonesia, the urgent task to be done is, despite the fact that we see a trend of concentration guided by free market mechanism, to gear investments in the regions by using positive interventional policies with effective and cost minimizing procedures, which do not have to decrease the main mechanism of free market. In order to form these policies, concrete targets of development in Morse specific sector rather than macro-sector have to be selected and regulatory interventions which ultimately cost more than without interventions, eliminated.

The efforts concerning local development of Indonesia today are more focussed on narrowing the development gaps between the Western part and Eastern part of Indonesia. Apart from the political reason that the government cannot ignore the under-development of Eastern Indonesia in order to eradicate trends of potential separatism of regions, Indonesia has put importance on a balanced and integrated national economy for the sake of consolidation of resiliency to survive in the uncertainty of the world. Indonesian economy needs to be supported by all the regions which are organically linked.

To ensure the success of development, it is important to indicate clear targets directed at optimum utilization and allocation of economic resources and to be as little as possible attracted by spontaneous political requests which often compel vast and inefficient budgetary disbursement. In this respect Indonesia will have to develop its Eastern regions by employing development strategies cautiously so as not to waste resources even though there are many ambitious projects. The target must be selected in accordance with the conditions of each region. And, the most importantly, that the economic earnings of local regions are recycled in and not transferred negatively to the centers. In this sense, the budgetary expenditure of the central government has to complement the out flow of resources from the regions. However, excessive subsidies from the central government can never improve the depending structure; hence, the local economies have to be given the chance to stand on their own feet by strengthening their financial capability.

With regard to the relation of the local economic dependency to the centers in Indonesia, the case of the development structure of Okinawa prefecture after repatriation to Japan in 1972 can be referred to. Okinawa's population in 1991 was one million two hundred and twenty eight thousand, numbering the thirty fourth of forty seven prefectures, spreading over about seventy islands divided into four sub-regions. Per capita income in 1989 was 1,892,000 Yen which ranks the last of all prefectures with an average income of 2,775,000 Yen and Tokyo at the top with 4,258,000 yen. Production of the manufacturing sector is only 6,1 percent of Gross Domestic Production of Region (GDPR), but the construction sector's share is 15.5 percent, compared to 29.9 percent of the former of the national average and the 9.3 percent of the latter. From the aspect of local budget, own resource revenue (local tax and bond) is only 25 percent and other revenues are mainly from the central government, large parts of which are from the rent of US military bases and salaries of personnel working there who are paid by the central government. The regional balance of payments with the mainland (including international transactions) in 1989 attained a net surplus of about 48.9 billion Yen consisting mainly of net transfer revenues relating to US military bases from the government of 13.5 billion Yen, budgetary subsidies of 64.1 billion Yen and capital transfer (mainly from treasury of the government) of 26.6 billion Yen, while the deficit of goods and service transactions was 56.5 billion Yen. This means that there were few newly grown companies exporting goods to the main land or abroad after the repatritiation. The description above shows being dependent on central economy, Okinawa could not manage its economy without rainfalls of subsidial transfers. In reality, after the repatriation, the degree of the dependence has not decreased. Thus, it is not strange that the third development plan (10 years) of Okinawa which was publicized by the central government in 1992 placed first priority on the construction of an independent and unique economy.[3]

Turning to the local development in Indonesia, the government once more stressed in the GBHN (General guidelines of the state) of 1993 that the orientation of local development should be towards attaining a balance in levels, contributing to the welfare of the people, mobilizing people to improve local potentials and consolidate clean, dynamic, balanced and responsible autonomy.[4] For this purpose, the government is required to make clear conceptions and targets of development and develop strategies for realization and ways of implementations within the given conditions for the development. In this process, we should not ignore ways of drawing up local potentials in line with the rationality of economic principles. In other words, the government may use interventional measures to mobilize potential resources left in the idleness by the local community which is not ready to adapt to rapid changes. However, on the other side, it must adopt proper policies which will not obstruct economic rationality or distort market mechanism as stated in neo-classic theory. Also, they should be 'market conforming' or 'market friendly' measures, as noted by the World Bank, which restrict the excessive outcome of

3 Agency of Okinawa's Development, The Third Development Plan of Okinawa, September 1992.

4 Ketetapan MPR-RI II/MPR/1993 Tentang Garis Garis Besar Haluan Negara

defeating the weaker in 'free light liberalism'.[5] Economies of local regions in Indonesia as well as in Japan are very weak and easily tend to subordinate to the centers and enjoy idleness in the rainfalls of subsidiary transfers. In conclusion, the measures to be adopted are:

a. Enhancement of production capacity for construction of self sustaining and independent economies;

b. Diversification of the economic structure which relies on a monocultural system so as to widen its range of activities;

c. Formation of an integrated market with the central economies by promoting access of local economies to the centers;

d. Decentralization and deregulation of the government control to strengthen autonomy;

e. Transparency of administrative measures and establishment of open information systems of economic data;

f. Development of human resources which can charge on self supporting economic development;

g. Institutionalization of a democratic supervising system.

4. TARGET AND POLICIES FOR THE LOCAL DEVELOPMENT IN INDONESIA

To construct the integrated economic system of Indonesia, leveling-up economic development is necessary in both the centers and periphery regions, i.e. Western and Eastern Indonesia. The main task of local development is to narrow the gap between urban and rural areas by

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5 Ketetapan MPR-RI II/MPR/1993 Tentang Garis Garis Besar Haluan Negara

activating industries and commerce and drive up some isolated areas still left behind to the central market. In order to develop the Eastern part of Indonesia, it is to give them access to the Western areas. The problems here are:

a. The market scale of the Eastern part is so small that its total Gross Regional Domestic Product (GRDP) with oil and gas sector is only about 20 percent;

b. The eastern part consists of many island with a low density of population which sets physical limitations to the formation of an independent economic market though there is an abundance of natural resources;

c. Economic infrastructure such as airports, seaports, inter-provincial and inner-road networks, telecommunications, etc, are absolutely lacking. With regards to this, the government has to prioritize investment in those sectors;

d. Development of local industries are still in embryo because of shortage of local capital, human resources, business opportunities and so on;

e. There is very limited opportunity for direct trade with foreign countries and even primary products are shipped directly, business management are carried out in Jakarta or other big cities.

Take as an example the disparity in development between East Java province and South Sulawesi province shown in ***Table 2***. GRDP of East Java is ranks second, with 29 trillion rupiah, and next to West Java in Indonesia, and that of South Sulawesi ranks the tenth, with only four trillion, but ranks first outside Java and Sumatra. Per capita GRDP of East Java is the seventh, with 898 thousands rupiah, and that of the latter is the twenty-first, with 608 thousands rupiah. Despite its being the sub-polar region of the Eastern part of Indonesia, South Sulawesi's per capita GRDP is below the average of the twenty seven provinces. Of course, the backwardness of South Sulawesi which represents the Eastern part of Indonesia is indicated by the magnitude of the subsidy from central government, the small size of domestic and foreign capital investment and so on. However, wage level is so high when compared to East Java that enterprises cannot get comparative advantage in the labor intensive industry and are thus reluctant to locate their factories there. This might cause capital resource flights to Java. The case of under-development of South Sulawesi is one of the typical problems of the development disparity that has put the pressure on the government to prioritize the development of the Eastern part of Indonesia and find an urgent solution to the poverty problem.

Not being able to solve all the problems at once, the government's first target is to connect Eastern Indonesia directly with foreign countries by giving incentives to foreign direct capital investments, opening tourism areas, expanding export of primary and processed products, giving financial facilities through the banking system, rehabilitating or constructing infrastructure, etc. At the last stage of the fifth five year development plan in 1993, despite the fact that the Indonesian economy as a whole has begun to enter the 'take off' stage with the success of the export oriented industry, the economy of Eastern Indonesia is still lagging far behind in development.

Secondly, in the successful program of self-sufficiency of rice in the 1980s, East Indonesia also had a surplus of rice everywhere. However, some regions, like South Sulawesi which traditionally already had a rice surplus, could not sell its rice to its former rice markets nor to other new areas and as a consequence suffered from a severe drop in price even under the government supporting price. This ironical situation results from the needs of national interest for security, which then, debauched the former regional economic market mainly functioning through rice distribution without a new substitute for the old one. Formation of new market systems among the local regions are expected in order to sustain Indonesian economic resilience. Possibility of this lies in the reconsideration of traditional inter-insular trade networks, for instance, Manado-Ternate-Ambon triangle.

Thirdly, in accessing to market of the centers, the regions has to raise the terms of trade by selling higher value added commodities and attracting investment from the centers so that there will be a positive transfer of financial resources to the local regions. For this purpose, the effective ways are to develop sub-economic centers whose functions are to finance to local enterprises, construct industrial centers equipped by sophisticated infra-structures, establishing distribution centers for local products, etc. Unfortunately, under the present conditions, sub-economic centers are not develop enough to be able to diversify the excessively concentrated Indonesian economy. Thus, it is necessary for the sake of development of local economies that the local administrative bodies as well as the private sector to have initiatives in their activities beyond the local administration system which is uniformed, controlled and limited autonomy by central government.

To realize the above targets, concrete development plan and implementing policies are required. In the previous five year development plans before, local development plans were ambitiously expressed but their results often diverted from the intended targets because they were not always based on consideration of the real conditions of local economies but often enumerated arbitrarily. Hence, each development plan of the regions tends to be identical because of the guidances from central government and only few have their own characteristics in the plan.

Most of regions are eager to develop the manufacturing sector which may have comparative advantages by processing primary commodities produced there to level up regional income. However, the possibility of developing this sector is limited because there is a scarcity of supporting industries, marketing know-how and distribution facilities. The second is the development of tourism which would enable them to earn money easily provided that they are able to offer the accommodations and infrastructures. The third is the orthodox way of develop their traditional industries which mainly consist of agri-business or handicrafts that are often related tourism. With respect to the development in the medium term, the latter two are expected to be strategic sectors as generally pointed out; however, the development of the manufacturing sectors is designated rather for long-term development. In any case, local economies whose structure absolutely lacks their own capital, technology and human resources, need resource transfers from the centers or abroad. To encourage local development, the Indonesian government has used direct assistance, typically in the form of 'INPRES (Presidential Instruction) projects, through central budget because it considers that local ability is not mature enough to sustain their development by themselves. It is natural that the central government cannot help but uniformize local development, which, however, might strip the possibility of self-sustaining development of the regions. Realizing the weakness of highly concentrated policies, the government has begun to decentralize powers by, for instance, increasing local shares of revenue from IPEDA (property tax). In line with the second long term development plan (PJP T II) and, more practically, the sixth five years development plan, the ability of the local regions, government as well private sectors, have to be improved with the assistance of the central government in a more indirect and efficient way. But in doing so, it is necessary to consolidate an effective inspection system over the local governments so that the resources for development are not wasted, as criticized generally that 30 percent of development budget is lost.

To attain more efficient ways of the development, the policy has to be based on scientific and objective information and implemented transparently. This conclusion is already stated by many experts, but, in reality, it is not easy to be realized by the local regions. In the next five year development plan which will begin in 1994, one of the top priorities will be to institutionalize the mechanism for the improvement of the ability of the regions.

Table 1
Regional Balance of Payments of Okinawa Prefecture
(Billion Yen)

	1983	1986	1989
REVENUE			
1. TOTAL REVENUE	1,420	1,484	1,693
(1) CURRENT TRANSACTION	1,124	1,174	1,427
(a) Export to outside	550	547	632
goods	216	184	201
services	333	362	432
(b) Net factor income	95	88	135
(c) Transfer to private sector	7	8	18
(d) Transfer to public sector	473	532	641
(2) CAPITAL REVENUE	296	311	266
EXPENDITURE			
1. TOTAL EXPENDITURE	1,189	1,151	1,205
(1) CURRENT TRANSACTION	1,186	1,144	1,197
(a) Import	978	901	907
goods	939	853	849
services	40	48	58
(b) Transfer to outside	208	244	201
(2) CAPITAL TO OUTSIDE	3	6	7

Source: Okinawa Kenseino Aramashi (Guidebook on Okinawa) September 1992

Table 2
Comparison Between East Java and South Sulawesi

	East Java	South Sulawesi
01.GDPR 1990 (Billion Rp)	9,161	4,242
02.Per Capita GDPR 1990 (1000 Rp)	898	608
03.Inter Islands Cargo Loaded (1000 Ton) 1992	2,827	1,107
04.Inter Island Cargo Unloaded (1000 Ton) 1992	8,085	222
05.Export 1992 (Million US$)	2,801	97
06.Import 1992 (Million US$)	3,530	123,322
07.Total Budget Revenue 1991/92 (Million Rp)	854,530	532
08.Own Budget Revenue 1991/92	196,759	27,098
09.Domestic Investment (Billion Rp)	20,128	2,721
10. Foreign Investment (Billion Rp)	5,744	1,357
11.Average Daily Wage Nov. 1991 (Rp)	3,527	5,323
12. Population 1990 (Thousand)	32,504	6,982

Notes: 3, 4, and 6 are only from mainport, Tanjung Perak Port of East Java and Ujung Pandang Port of South Sulawesi. Item 9 is approved and cummulative figures from January 1st 1967 up to March 31st, 1993. Item 10 is approved and cummulative figures from January 1st up to March 31st 1993
Source: Nota Keuangan 1993/94, *Indikator Ekonomi* 1993, Oktober 1993, BPS (Central Bureau of Statistic), *Statistik Indonesia* 1992, BBPS. *Upah Buruh menurut Jenis Pekerjaan* 1991, BPS

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