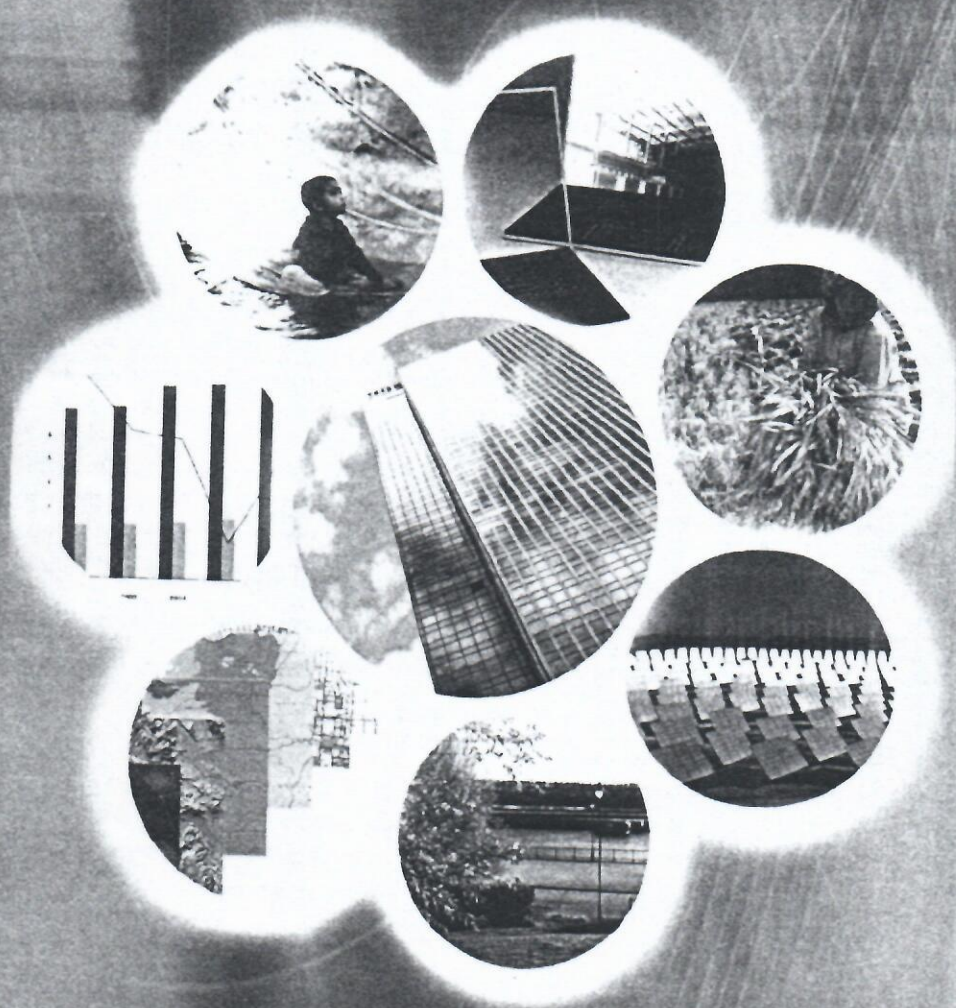


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THE ANALYSIS OF FOREIGN AND DOMESTIC INVESTMENT DISPARITY AMONG PROVINCES IN EASTERN INDONESIA AFTER DECENTRALIZATION

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Abstract— The reformation era is signed with the shifting role of policy from central government to local government. The eastern parts of Indonesia have so many potential resources to increase the economic welfare. On the other side, they have several problems and constraints to utilize the natural and human resources. One of the main problems to promote economy of eastern Indonesia is how to increase investment both foreign and domestic investments. Investment is a machine to generate the Indonesian economy. The policy to promote investments is heavily influenced by political will and public administration. Promoting foreign and domestic investments in eastern Indonesia faces a number of factors such as social political conditions, scarcity of economic infrastructure, employment and taxation problems, etc. Investments in eastern Indonesia are also affected by consistent interactions between local government and central government and inter government institutions. The aim of this research is to analyze the growth of foreign and domestic investments among provinces in eastern Indonesia. This research identifies and compares the impacts of decentralization policy on investment disparity both foreign and domestic investment in eastern Indonesia's provinces. The research uses combined research methodology; investment disparity ratio, regression and other economic approaches. The research concludes that there is significant disparity among provinces in eastern Indonesia. The decentralization policy has different impacts to those provinces. The suggestion of this research is to promoting conducive situation by implementing comprehensive economic policies and also maintaining social political stability, providing adequate economic infrastructure and the wholism policy between central and local government and inter government institutions.

Keywords-component; : Autonomy, decentralization policy, investment gap, fiscal gap

I. INTRODUCTION

Indonesian government has applied the decentralization policy since 2001 which to some extent, has improved local government's performance. Decentralization policy is considered compulsory for Indonesia which consists of archipelago in order to increase the effectiveness of the government policy. The centralization policy which was applied in new order government was proven not to be

effective to overcome the problems in Indonesia. Euphoria of autonomy or decentralization is caused by the unpleasant experiences in new order regime which applied centralized economic development strategies and politics. In terms of economic development, these socio-political distortions are related with security of government officers because the stability of socio-politics of a country is a prerequisite of its economic development. The new order applied development formula of trickle down effect that requires sufficient investment to encourage economic growth. In the long run, this strategy had created unfairness in economic practices such as monopoly and oligopoly competitions. In addition, it had caused several economic problems especially disparity in economic development among provinces or regions in Indonesia because only a few people can enjoy the development.

The new order government had made the western Indonesia grow faster than the eastern side of the country. Indonesia has plenty natural resources and many other economic factors to improve its economic development. They stretch not only in western part of Indonesia but also in eastern Indonesia such as gold mining in Papua and natural resources in Maluku Sea. Development disparity between western and eastern Indonesia, in the long run, has created imbalances and socio-political instability, inequity and menace sustainability development.

The objectives of the research are

1. to find out how far the growth of foreign and domestic investments in provinces located in the eastern part of Indonesian,
2. to investigate the impacts of decentralization or regional spin-offs policy to foreign and domestic investments disparity in those provinces,
3. to find out the threat, opportunity, strength and weakness faced by areas applying decentralization or regional spin-offs policy

II. Research Methodology

This research uses secondary data from credible institutions such as Central Statistic Agency (BPS), Bank of Indonesia (BI), Regional Planning Board (Bappeda) and many others. The data covers population, Locally-Generated revenue (PAD), Revenue from Regional Debt, General Allocation fund (DAU), Specific Allocate Fund (DAK), Revenue Sharing Fund (DBH), Gross Regional Domestic Income (PDRB), foreign investment (PMA), Domestic investment (PMDN), and Regional Budget (APBD). This research was conducted in the provinces applying spin-offs policy such as North Sulawesi, South Sulawesi, Maluku and Papua in 1998 to 2007. The research methodology employs some analytical methods, that is investment disparity analysis and SWOT analysis.

III. Results and discussions

Investment Disparity Analysis

The following table shows the level of domestic investment disparity in North Sulawesi :

Table 1. The Analysis of Domestic Investment (PMDN) Disparity at North Sulawesi

Years	$I_t - I$	$(I_t - I)^2$	f_t	n	f_t/n	$r = \frac{\sum (I_t - I)^2}{\sum f_t} \times \frac{f_t}{n}$
1998	-18019.4	324608776.4	1956700	25906600	0.075813	24616348.01
1999	-11265.7	126915996.5	1978900	26321000	0.07518	9541482.993
2000	-31366.5	983857322.3	2000800	26822371	0.074597	73392899.69
2001	-24807	615387249	2022700	27233200	0.074273	45706850.04
2002	-3863.3	13418798.89	2044800	27650500	0.073952	992413.8564
2003	-30804	948886416	2067100	28073500	0.073632	69868135.8
2004	-2669.6	7126764.16	2089700	28503000	0.073315	522499.3532
2005	-5327.4	28381190.76	2112400	28938700	0.072996	2071704.236
2006	-5331.4	28423825.96	2132500	29341400	0.072679	2065811.749
2007	-28346.8	803541070.2	2152700	29749800	0.07236	58144352.63

SOURCE : Central Statistic Agency

This table.1 shows that domestic investment disparity in North Sulawesi before applying the decentralization or regional spin-offs policy in 1999 was 9541482993. In 2001, after Gorontalo province spun off from North Sulawesi province, the value of investment disparity (r) was down to 4570685004. It means that the spin-offs has caused downdraft of domestic investment in North Sulawesi. This situation took place until 2004 assessing r to become 5224993532. In the following years, assessed r to start moving rising mean that the local condition in spin-offs area has influenced the investment gap step by step.

Table 2. The Analysis of Foreign Investment (PMA) Disparity in North Sulawesi

Year	$I_t - I$	$(I_t - I)^2$	f_t	n	f_t/n	$r = \frac{\sum (I_t - I)^2}{\sum f_t} \times \frac{f_t}{n}$
1998	-426.9	182243.61	1956700	25906600	0.075813	13816.41218
1999	-351.4	123481.96	1978900	26321000	0.07518	9283.313797
2000	-1715.9	2944312.81	2000800	26822371	0.074597	219637.1871
2001	-6709.6	45018732.16	2022700	27233200	0.074273	3343600.405
2002	-666.9	444755.61	2044800	27650500	0.073952	32890.40962
2003	-2208.1	4875705.61	2067100	28073500	0.073632	359006.5744
2004	-852.1	743216.41	2089700	28503000	0.073315	54488.97772
2005	-512.4	262553.76	2112400	28938700	0.072996	19185.28948
2006	-606.1	367357.21	2132500	29341400	0.072679	28699.10948
2007	-6617.8	43795276.84	2152700	29749800	0.07236	3169032.815

SOURCE : Central Statistic Agency

This table.2. shows that foreign investment disparity in North Sulawesi before applying of decentralization in 1999 was 9283.313797. In 2001, after Gorontalo province spun off

from North Sulawesi province, the value of foreign investment disparity (r) fell to 3343690.405. It means that the spin-offs policy caused downdraft of foreign investment (PMA) in North Sulawesi. This situation experienced downdraft till 2004 assessing r to become 54488.97772. In the following years, assessed r to start moving rising mean that the local condition in spin-offs areas is influential to investment gap step by step

SWOT Analysis

SWOT analysis is also recognized as situation analysis to identify corporate strategies in facing the development of economic climate and situation. SWOT analysis is applied to maximize the strengths, opportunity and at the same time also minimize the weaknesses and threats to reach desired economic condition. The strengths of eastern Indonesia's economy are fertile land for farming agricultural purposes, adequate number of labors, orientation of good market, adequate goods and people mobility, wide product market, political, social and security stability, international market share, economic pawn and government politics.

Table. 3 The Analysis of Production Sustainability and Market Share

No.	Commodity	Continuity	Market Share		
			Local	National	Inter.
1.	Cocoa	Climate dependent		V	V
2.	clove	Climate dependent		V	V
3.	Rice	Climate dependent	V	V	
4.	Palm sugar	Climate dependent	V		
5.	Paper	Climate dependent	V	V	
6.	Sea weed	Not Deppend on Climate	V	V	V
7.	Pearl	Not Deppend on Climate		V	V
8.	Fish	Deppend on Climate	V	V	V

SOURCE : Secondary data

The weakness of eastern Indonesia's economy is lack of infrastructure facility, imported capital assets, low quality of human resources and the fluctuation of exchange rates. Meanwhile, the opportunity of eastern Indonesia's economy are mainly good climate and temperature condition for plantation and agriculture, good corporate governance, accessibility of infrastructure, and good cultural and political stability. On the other hand, the threats are mainly globalization and liberalization power that can damage the basic traditional economic, the fluctuation of traditional price of goods and exchange rates, the changes of government regulations especially on decentralization, land abuse, destroy of predator to plantation and agricultural crops, and the fluctuations of input price.

IV. conclusions

Disparity investments in eastern Indonesia depends on several factors both economic and non-economic factors such as fertile land, adequate number of labors, orientation of good market, adequate goods and people mobility, wide product marketing, stability of politics, social, security and safety, international market share, economic pawn and government politics. The main factor to increase the

economic performance at eastern Indonesia is how the local government can promote the potential resources such as natural resources. In addition, the crucial factor to promote economic performance in eastern Indonesia is lack of infrastructure such as harbor, airport, water, electricity, street, telecommunication network, etc.

The decentralization or spin-offs policy in some provinces in eastern Indonesia have to work together with local government in province or district level. In addition, the decentralization or spin-off policy forces local government to make cooperation international organizations or other countries such as ILO, WHO, UNESCO, etc. The purpose of decentralization is to promote and spin-offs economic welfare to all community in Indonesia.

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