4 Integration into Indonesia: Money, Labour and Commodity Markets

Before 1962, wage rates were very much higher in Irian Jaya than in Indonesia, interest rates were much lower and the relative prices of goods and services very different. From 1962 to 1968 the Indonesian economy suffered extreme rates of inflation and chronic foreign exchange scarcity. The freeing of capital, labour and commodity movements between Irian Jaya and Indonesia was bound to transform traumatically the provincial economy.

In recognition of the extent of the required adjustments and of the province's delicate political status, some steps towards economic integration were delayed. Complete monetary union was not effected until 1971. Until 1969, a permit from Sektor Khusus was required for entry into Irian Jaya from other parts of Indonesia, and in late 1972 a separate tariff schedule was still maintained for Irian Jaya.

Nevertheless, a massive immediate readjustment took place. The level of external subsidy fell considerably and most of Irian Jaya's administrative and technical expertise withdrew. Among the 'managers' of the colonial economy, only the missionaries and the medium-sized Chinese businesses remained. In contrast to the transfer of sovereignty in other provinces, where Dutch and other foreign enterprises with foreign personnel continued their operations for several years after Independence, political change in Irian Jaya was accompanied by withdrawal of the banks and the major trading companies. The regular, subsidised coastal shipping service ceased to operate effectively and the most important international trading connection was severed temporarily. Dislocation of international trade was exacerbated in 1963 by confrontation and severance of economic ties with Singapore. This chapter describes the process of integration into the wider national economy and discusses some of the effects of integration on interest rates, wages and commodity prices. Later chapters look in more detail at the effects of these changes on the structure of the economy.

Money, credit and banking

In 1963 the West Irian rupiah (IBRp) was introduced with an initial value

equal to that of the New Guinea guilder it replaced. Trade was freed between Irian Jaya and other provinces. By 1965, however, inflation in Indonesia had brought about a wide disparity in purchasing power, at official exchange rates, of the Indonesian and West Irian rupiahs.

Table 9 **Exchange rates, Irian Jaya and Indonesian rupiahs and US dollar and Irian Jaya rupiah, 1963-72**

Period beginning	*Irian Jaya Rupiah (IBRp)*	*Indonesian Rupiah (Rp)*	*$US*	*Irian Jaya Rupiah (IBRp)*
1963	1.00	62.25	1.00	3.62
1964	1.00	142.00	1.00	3.62
28 Sept. 1965	1.00	500.00	1.00	3.62
13 Dec. 1965	1.00	1000.00	1.00	10.00
13 Dec. 1965	1.00	1.00	1.00	10.00
30 Oct. 1966	1.00	2.76	1.00	10.00
3 April 1967	1.00	10.00	1.00	10.00
17 April 1970	1.00	18.90	1.00	20.00
23 Aug. 1971	1.00	18.90	1.00	21.96

Source: Bank Indonesia, Jayapura.

Prices of many imported goods in Jakarta were ten to twenty times their official prices in Jayapura. This price disparity promoted high levels of 'exports' of movable commodities, including capital equipment and machine parts, from Irian Jaya to other provinces of Indonesia.[1] The foreign exchange available for the import of essential goods was insufficient to meet demand, price levels rose and black markets developed. The black market for foreign exchange rose to 350 per cent of the official rate in 1966-7.

In response to the worsening state of the economy, convertibility between the Indonesian and West Irian rupiahs was suspended, Indonesian importers were required to provide foreign exchange for purchase of West Irian rupiahs and special permission was required for inter-island trade. When the new Indonesian rupiah was introduced in 1965, the West Irian rupiah was devalued *vis-à-vis* foreign currencies for the first time.

To combat continuing inflation and decline in urban living standards in Irian Jaya the central government made emergency air droppings of food and other supplies in late 1966. Further major devaluations of the Indonesian rupiah *vis-à-vis* the West Irian rupiah in 1967 and 1970 helped restore purchasing power parity, and controls on inter-island trade and payments

[1] United Nations, *A Design for Development in West Irian*, p. 28.

were withdrawn. The low provincial tariffs were reduced. Most commodities were freed from the price controls applied in 1963 and controlled prices were raised to reflect market conditions. Minimum wages and public service salaries were increased in 1967-8.

Periodic shortages of basic commodities continued between 1967 and 1969, largely as a result of irregular shipping. Immediately before the Act of Self Determination the central government made a large amount of credit available to importers for purchase of consumer goods,[2] introduced a shipping subsidy and donated several ships to the regional government for improvement of coastal services.

With greater economic stability elsewhere in Indonesia, the government was able to effect further reforms after the Act of Self Determination. The Indonesian rupiah became legal tender in February 1971. The West Irian rupiah has been withdrawn progressively and is now rarely encountered. When foreign exchange purchases were freed throughout Indonesia at the time of the parity realignment in 1970, Irian Jaya importers could purchase foreign exchange from the local banks and the costly procedure of applying for funds through Jakarta ceased to be necessary.

The provincial monetary system is now substantially integrated into the national system. The Jayapura branch of Bank Indonesia provides a central banking service. The Export-Import Bank trades through its branches in each of the five major urban centres. The regional development bank, Bapeda, lends on a very small scale to construction and small industries, but the recently established Irian Jaya Joint Development Foundation is a financial institution of considerable potential importance.

Interest rates are above those current during the colonial period but are still lower than elsewhere in Indonesia. Importers can obtain bank credit in Irian Jaya at 1.5 per cent and exporters at 1 per cent per month. By contrast, importers elsewhere in Indonesia could not obtain bank credit for general import purposes until very recently.

Despite this favourable treatment there is a net transfer of resources to other parts of Indonesia through the banking system. At the end of August 1972, outstanding bank credit in the province stood at Rp 1835 million, against Rp 3216 million in time and demand deposits. Demand deposits accounted for almost all deposits, although time deposits were growing at a faster rate.

[2] In 1968-9, OPSUS, a central government intelligence agency, provided special credit of Rp 2.3 billion (about $6 million) to importers in Irian Jaya. Most was never recovered (personal communication with bank officials in Jayapura, October 1972).

In contrast to banking practice elsewhere in Indonesia, no interest is paid on demand deposits and some residents find it expedient to hold their funds outside the province. The explanation of this anomaly is not clear; it would probably change quickly with more competition in provincial banking.

Credit granted by the Export-Import Bank rose dramatically from Rp 181 million in 1969 to over Rp 1000 million in 1971. Importers have always obtained the largest share of bank credit. Credit to exporters has fluctuated around 10 per cent of the total. 'Other credit', primarily for construction and consumption by government employees, has risen rapidly since 1969 (see Table 10).

Table 10 Credit advances by categories, Export-Import Bank, Irian Jaya, 1969-71 (per cent)

	Export	*Import*	*Other*[a]	*Total*
1969	9	56	35	100.0
1970	13	66	21	100.0
1971	6	48	46	100.0

[a] Construction, local trade and production and consumption.
Source: Export-Import Bank, Jayapura.

The use of credit in the province is concentrated most heavily in Jayapura (50 per cent of the total), Biak (25 per cent) and Sorong (12 per cent). Sorong is the only centre where exporters have received a major share of bank credit. In mid-1972, over half of outstanding credit through the Export-Import Bank in the Sorong area went to exporters of copra, crocodile skins and timber.[3]

In Jayapura, 70 per cent of bank credit was outstanding to importers, 15 per cent to construction firms, 5 per cent to local producers (principally building materials), 3 per cent to inter-island traders and 1 per cent to exporters.

Less formal credit institutions are important in local trade, urban services and small-scale urban production. For example, importers have financed much of the growth of urban transport services through loans for purchase of 'mini-buses'. Interest is usually collected as part of the price of the vehicle rather than as a separately accounted item. Importers have also provided credit for construction and for inter-island and retail trade. Many small-scale entrepreneurs migrating from other provinces have been financed by their suppliers in Surabaya, Ujung Pandang and Jakarta or have financed themselves through sale of commodities carried with them on the journey.

[3] Loans to exporters from Fak-Fak are probably included in this figure as there is no branch of the Export-Import Bank there.

The Irian Jaya Joint Development Foundation grew from a recommendation of the 1967 Fundwi Survey Mission. The United Nations Development Programme and the Indonesian government have each committed $4 million to the Foundation, of which over half had been called by late 1972. There are five members of the Board of Commissioners, of whom four are appointed by the government of Indonesia (one nominated by the Governor of Irian Jaya) and one by the Administrator of the UNDP.[4]

The Foundation was legally established in December 1970, but it has been slow to begin lending. The Executive Management Board was substantially complete in late 1972, with three expatriate officers, of whom two will remain with the organisation, and two senior executives from Bapindo, the Jakarta-based national development bank. The appointment of one more Indonesian official will complete the executive staff.

The Foundation is under no obligation to pay dividends. It can borrow on its own authority, so long as it can meet interest payments out of income due. It is empowered to assist private or public enterprises by loans on concessionary terms, equity investment or managerial and technical assistance. Although clear policies have yet to be formulated, the Chief Executive envisages that loans to large-scale enterprises in the modern economy will absorb most of the Foundation's resources.

Many applications for assistance were lodged before the Foundation was ready to consider them. Upon investigation many appeared insubstantial and many of the originators of others had lost interest. The first two loan offers were made in October 1972 to a value of slightly over Rp 30 million.[5] Rapid growth in lending is anticipated.[6]

Labour markets

The influx of immigrants from other parts of Indonesia has been the most important agent of structural change in the monetary sector of the Irian Jaya economy. The immigrants have been of three types: officials and skilled employees of the government and large companies arriving to take up employment arranged in advance; resettlement farmers brought from Java to Irian Jaya under the government transmigration scheme; and self-financed settlers hoping to find employment on their arrival.

[4] West Irian Joint Development Foundation, *First Annual Report and Financial Statement*, Jakarta, 1972.

[5] A large loan was offered to Merpati for the development of tourism and a very small one to a local fisherman for equipment.

[6] By 30 June 1973 the Foundation had granted approval for loans of about Rp 621 million for fifteen projects, of which Rp 53 million had been dispersed. Very low interest rates are charged: 6 per cent for projects relating to agriculture, animal husbandry, fisheries and forestry, 9 per cent for manufacturing projects and 12 per cent for other projects. See West Irian Joint Development Corporation, *Second Annual Report and Financial Statement 1972-73*.

After the very large immigration of Indonesians to restaff government in 1962 and 1963, arrival of persons with technical and administrative skills from other provinces has occurred on a much smaller scale.[7] Demand for technical skills has risen rapidly since 1969, with the increased activity of foreign companies in mining and fishing. The new companies have attracted some personnel from other provinces with offers of high remuneration, but have relied heavily on imported Filipino, Korean, Japanese, Australian and American skilled workers.

The middle and upper echelons of the bureaucracy are staffed predominantly with persons from other provinces. Official statistics indicate that the number of non-local civil servants reached 4150 in 1968, just under one-third of the 13,337 civil servants employed in Irian Jaya. Since then, local civil servants (*pegawai daerah*) have accounted for all of the increase in employment and have replaced large numbers of non-locals. In 1971 only 2429 of 15,480 civil servants were classified as non-local. However, it is probable that a significant proportion of local appointees were immigrants from other parts of Indonesia.

Official data provide no breakdown between local and non-local officials employed at various levels of government. A small number of Irianese occupy high positions in the civil administration: in 1972 the Governor, four of the nine Bupatis and the heads of the Agricultural Service and the Provincial Economic Bureau had been born in Irian Jaya. However, other department heads come from outside Irian Jaya and the Irian-born generally fill the lower echelons of the service.

Some senior officials we interviewed indicated that they had little respect for indigenous leaders, who were often poorly educated and who had had little senior administrative experience before being thrust into executive roles. Informants suggested that conflict between senior Irianese and their more skilled assistants led frequently to considerable tension. One well known example was the conflict in mid-1972 between the Bupati of Paniai, Karel Gobai, and his Javanese deputy. Karel Gobai accused the latter of taking decisions without his knowledge and was in return charged with incompetence by his deputy. Gobai left his post in anger to muster support in Jakarta and was subsequently dismissed.

[7] No data are available on the numbers and skills of military personnel in Irian Jaya.

Indonesians from other provinces hold all senior positions in the military hierarchy, which are the centres of effective power. Most members of the elected assemblies are local but, as observed before, these offices are of minor importance.

Wages and salaries for skilled personnel are very high by Indonesian standards. Special higher civil service salaries apply to Irian Jaya alone and civil servants appointed from outside the province receive a cost of living allowance that is almost as high as their salaries.[8] The general standard of living of many civil servants in the major towns is very high by Indonesian standards. Although locally produced foodstuffs are expensive, the low tariffs on imported consumer goods and easy access to government-owned cars and cheap consumer credit from the Export-Import Bank gives them mobility and the capacity to obtain a wide range of consumer goods.[9]

The material attractions have not secured an adequate supply of sound officials. Several high-ranking officials commented that the quality and motivation of officials in Irian Jaya was very much poorer than elsewhere in Indonesia. It is possible that reduction in political tensions within the province after 1969 and the growth of common Indonesian facilities in the towns of Irian Jaya will bring about slow change in the supply of administrative skills from other provinces. The development of local administrative cadres that are effective in an Indonesian environment is a very long term task.

Although the prospect of filling empty Irian Jaya with farmers from overpopulated Java has had romantic appeal in Indonesia, the province has not been a priority region for official resettlement. Only about 450 families had arrived under the official transmigration scheme to the end of 1971. Most of these have begun farming close to Merauke,[10] Jayapura[11] and Manokwari.[12] Faced with unfamiliar soils, terrain and climate, the need to change consumption patterns (rice cannot be grown in the highlands), marketing difficulties and some hostility from local people, some settlements have broken up and their members have moved into commerce and other employment in urban areas. The transmigration schemes in the highlands broke up and settlers now

[8] Civil servants at lower salary levels A2 and C2 and at higher levels E2 and F3 received salaries of Rp 3780, 6804, 13,154, and 17,766 per month respectively and outsiders at the same levels received an additional Rp 3307, 6615, 12,285 and 16,537 per month.

[9] One journalist has described Irian Jaya as a 'paradise' for civil servants. See Tjoek Soedarmadji, 'Dari "Neraka" djadi "Sorga" pegawai negeri', *Merdeka*, 7 June 1972.

[10] Kumbe, Kurik and Kuprik.

[11] Dosai.

[12] Oransbari.

make up a large proportion of the shop and market traders in Wamena. A majority of transmigrants to Kurik have moved to Merauke to take up labouring and artisan jobs.

Some small groups of transmigrants have done very well in Irian Jaya. Settlers near Jayapura and Nabire have become market gardeners and important suppliers of vegetables to the towns.[13] With these and larger, better planned future projects the government hopes to introduce new farming techniques and to encourage commercial farming by the local people. Problems of adjustment have been least severe in settlements adjacent to Merauke, where rice can be grown either in the remnants of the technically irrigated scheme commenced by the Dutch (at Kumbe) or through reliance on wet-season rain (at Kurik and Kuprik).[14] There seems to be considerable scope for new paddy farming in the Merauke area.

Unsponsored settlers, principally from south and southeast Sulawesi and Maluku, have arrived in large numbers and now comprise an overwhelming proportion of new arrivals. Substantial migration occurred when a permit was still required from Sektor Khusus and the rate accelerated sharply after the abolition of the permit system in 1969.

Table 11 Recorded movements between Irian Jaya and other provinces on Pelni inter-island vessels, 1966-72

Period	*Arrivals*	*Departures*	*Net Immigration*
1966	17,332	16,373	959
1967	10,407	6808	3599
1968	14,461	11,663	2798
1969	15,695	12,658	3037
1970	23,538	18,928	4610
1971	23,940	17,390	6550
Jan.-June 1972	13,510	8125	5485

Source: Pelni records, Jayapura.

Most of the 'spontaneous' migrants, together with the official transmigrants, travel on the regular Pelni inter-island shipping connections. The figures set out in Table 11 suggest a minimum figure for internal migrations by sea. In addition there was an unknown but significant level of unrecorded travel

[13] A recent report stated that most of the Dosai settlers had radios and sewing machines and that some had purchased sewing machines and opened shops. See *Antara Financial and Economic News*, 7 June 1972, p. 7.

[14] The Directorate of Transmigration estimated the per capita cash income of Kuprik migrants at $130 in 1971.

on Pelni vessels and limited movements on traditional small craft and navy and chartered vessels. With more questionable accuracy, the regional shipping authority estimates that net migration from all ships rose from a little over 5000 in 1970 to just under 10,000 in 1971.[15] The authority's figures confirm a general picture of much greater net migration into and movement of people to and from the four main northern ports, Jayapura, Biak, Manokwari and Sorong, than through the southern ports of Merauke and Fak-Fak.

Travel to Irian Jaya is expensive in terms of a labourer's wage in Ambon, Ujung Pandang, Surabaya and Jakarta, the main ports of embarkation. The lowest fares to Jayapura range from Rp 7710 from Ambon to Rp 15,280 from Jakarta, about 10-20 per cent of the annual wage of a relatively skilled worker in these towns. As could be expected wage rates in the major northern towns which receive the immigrants are very much higher than in the migrants' areas of origin. In November 1972, daily wage rates for unskilled workers ranged around Rp 400-500. These were probably the highest rates in Indonesia, being slightly above those paid in East Kalimantan and Riau in 1971.[16] Rates in Sorong, Manokwari and Biak were slightly below the Jayapura figures. It is difficult to make comparisons of purchasing power, but the low price of rice in Irian Jaya probably offsets the higher prices of some other commodities important in the consumption patterns of low income workers.

Variations in wages within the province were as great as inter-provincial variations. In Merauke and Fak-Fak labourers were paid about Rp 100 per day. Rates were even lower in Agats, where payment for casual work was often made in tobacco. High intra-provincial transport costs and poor communications are the major causes of the wide variation in wages in different parts of the province.[17]

Markets for goods and services

Fixed prices and subsidies to a wide range of public utilities were important aspects of economic policy in the early years of Indonesian administration of Irian Jaya. The fixed prices that were inherited from the Dutch were the source of major distortions in a period of general inflation. Artificially low prices

[15] Daerah Pelayaran IX, Laporan Tahunan 1971, Jayapura, 1972, Appendixes 10A and 10B.
[16] H. W. Arndt, 'Regional Wage Differentials', *Bulletin of Indonesian Economic Studies*, 8(1), March 1972, pp. 89-92.
[17] For example, the lowest boat fare from Merauke to Jayapura is higher than from Ambon or Ujung Pandang (Macassar).

for electricity, fuel, transport and telecommunications strained the budget and contributed to capital consumption and deterioration in the quality of services.

However, most controls over prices and most subsidies to government enterprises had been eliminated by 1972. Subsidies to most public utilities were eliminated gradually after the Act of Self Determination in 1969,[18] and prices were adjusted to reflect costs more accurately. Fuel prices were revised in 1970 when Pertamina took over distribution from Shell. Petrol and kerosene are sold at the same prices throughout Irian Jaya, so that major centres in the north effectively subsidise distribution in the south. Petrol was sold at the all-Indonesian price of Rp 35 per litre in late 1972, but kerosene at Rp 20.8 per litre was twice the price charged elsewhere in Indonesia. The prices for aircraft and diesel fuel are allowed to vary with the cost of internal transport. Diesel fuel is sold at Rp 14 per litre in Jayapura, Sorong and Biak where there are major bulk installations, but at Rp 49.8 per litre elsewhere.

When the national electricity company (PLN) took over from the regional authority in 1971, electricity rates were increased up to ten times. At the same time, the previous single rate for all users was replaced by multiple rates. After the increases, the average price of electricity was about Rp 33 per kilowatt hour. These very high rates are partly due to the high cost of diesel fuel.

Transport and telecommunications charges were also increased in this period. Merpati, the internal Indonesian airline, doubled fares on main routes in Irian Jaya in March 1970. Telegraph and telephone rates were increased to between two and a half and four times those charged elsewhere in Indonesia. Shipping freight rates were raised by nearly 400 per cent in June 1970 as part of an attempt to improve shipping services. Ton-mile rates are now more than 50 per cent higher than for other places in Indonesia.

Price control was maintained over a wide range of commodities until 1967-8. Most prices were freed in this period and prices of the remaining essential goods were revised to fit in with market conditions. Controls on the prices of sugar, salt, tobacco and all other goods except rice were removed after the Act of Self Determination. Rice remains pegged at Rp.38 per kilogram, well below the present prices in Java despite sea transport to Irian Jaya and the high cost of air transport to inland areas.

Improvements in inter-island shipping services have combined with changes in consumption patterns and in trading institutions to promote increased trade between Irian Jaya and the rest of Indonesia. By late 1972, the four major northern ports were well integrated into Indonesia's inter-island

[18] See chapter 5 for details of these subsidies.

shipping system. Four Pelni ships of about 2230 DWT ran two routes between Jakarta and Jayapura, one regularly via Makasar and Surabaya and one via Ampenan, Lombok and Kupang.

At the transfer of sovereignty, small, established Chinese firms and firms established by the personnel of the departing companies replaced the European trading companies and retained their old trading links. Arrival of a few large national firms with inter-island trade connections has had some effect on the perspective of provincial importers. Equally significant has been the arrival of many small-scale 'round trip traders' who accompany their cargoes from Surabaya or Ujung Pandang and so reduce pilferage. They stay in Irian Jaya as long as required to sell their wares. Their activities have made important inroads into the business of established importers, and have reinforced the effects of changed consumption patterns. The consumer preferences of immigrants from other parts of Indonesia are very different from the import-oriented consumption patterns of the Dutch and Eurasians that they replaced in Irian Jaya's towns. Growth in numbers of employees from other parts of Indonesia caused the company responsible for construction at the copper mine to begin purchase of food supplies from Ujang Pandang in October 1972.

Inter-island exports are negligible but imports from other provinces have grown very rapidly. In 1971 inter-island imports reached 81,000 tons, about one quarter of total imports; by mid-1972 they were almost as large as those from other countries. The growth of inter-island trade has been boosted by the national petroleum company's switch in 1972 from Singapore to Indonesian sources for petroleum products. It will grow further when Amapere, the port of the copper mine, begins to draw a higher proportion of its requirements from national sources.[19] In 1971 Amapere accounted for nearly one-third of the volume and two-thirds of the value of all Irian Jaya imports from foreign sources.

In addition to the major items oil and rice, imports from other Indonesian provinces include cigarettes, household goods (plastic and enamel goods), cloth and clothing from Surabaya and Jakarta, fruit and vegetables from Ujung Pandang and fresh meat from Kupang and Lombok. In the second half of 1972, beer from Surabaya was introduced for the first time and made rapid inroads into the established markets of Singapore and Netherlands brands. All condensed milk supplies now come from Jakarta.

The increase in inter-island trade in recent years has occurred despite Irian Jaya's remaining outside the Indonesian tariff system. Inter-provincial trade

[19] See chapter 8.

is free, but the low Irian Jaya tariff gives little protection to national suppliers. Complete integration was scheduled for April 1972 but has been postponed indefinitely, partly for administrative reasons. Pressure from Jakarta manufacturers has led to tariff changes for a few commodities. The importation of assembled radios has been prohibited, as in other parts of Indonesia. The tariff on condensed milk has been raised from 3 per cent to the Indonesian level of 75 per cent. Further integration of the tariff structures may lead to further substitution of inter-island for international supplies, but only at considerable cost to provincial standards of living and economic growth. Table 12 indicates the extent of the tariff differences.

Table 12 Indonesian and Irian Jaya tariff levels, October 1972, selected commodities among major Irian Jaya imports (per cent)

Commodity	*Indonesian tariff*	*Irian Jaya tariff*
Chicken	30	0
Fish	20	9
Condensed milk	75	75
Coffee and tea	150	9
Sugar	60	9
Aerated non-alcoholic drinks	210	0
Beer	210	0
Tobacco	20	9
Textiles	varying *c.* 100 Cotton textiles *c.* 40	0-9
Steel	0-40	0-9
(galvanised iron sheets)	40	9
Electrical machinery	20-30	9
Other machinery	0-75 (mostly 20 or 30)	0-9 (mostly 9)
Cement	130	9
Lumber	60	9
Automobiles: sedan	200	75
delivery van	30	9
bus	60	9
truck (built up)	60	0
Aeroplanes	0	0

Source: Schedule made available by Kepala Kantor Inspeksi Bea dan Cukai, Jayapura.

Despite the increasing degree of integration of the province into the national economy, in 1971 Irian Jaya was still more dependent upon foreign imports than any other province. Per capita imports averaged about $35, nearly three times the national average of $12,[20] even though 80 per cent of the provincial population had almost no access to imported commodities. Even when the foreign enclaves and different tariff structures are integrated, geographic factors are likely to cause continued high import dependence in Irian Jaya.

Extension of Indonesian administration, development of education and integration into the national economy have been major goals of the Indonesian government in Irian Jaya. These goals have been pursued at considerable national cost and have been accompanied by large international subsidies.

[20] Our own rough estimates put per capita imports at $0.50 in South Kalimantan, $0.60 in Maluku, $0.75 in South Sulawesi, $1.25 in West Sumatra, and $1.30 in North Sulawesi. The much higher national average is accounted for largely by Java's dependence on imports, and the low outer islands level of imports is to some extent influenced by trans-shipment of imports from Java.

5 Public Finance and Resource Allocation

Irian Jaya receives an extraordinarily high level of national and international subsidy. In recent years it has been of a similar order of magnitude to Dutch subsidies in colonial times and not far below the per capita subsidy to Papua New Guinea from Australia. But the impact of government expenditures on provincial incomes and especially on indigenous incomes has been relatively small.

Skilled manpower, materials and communications are all very expensive in Irian Jaya and this raises the cost of any public program. The limited extent of monetised economic activity has limited local capacity to raise taxation and has caused very heavy reliance on external finance. The effectiveness of government expenditures in raising local incomes has also been reduced by inadequate co-ordination of public sector expenditures.

The total budget for Irian Jaya has run to nearly Rp 16 billion annually over the past few years (see Table 13). The central government grants are larger than those to the most populous provinces of Indonesia.[1] The special routine grant to Irian Jaya has ranged between 15 and 20 per cent of total central government subsidies to provincial routine budgets over the past few years.

The central government subsidy to the Irian Jaya development budget was a much smaller proportion of the national total, but at Rp 3.5 billion in 1970/71 and 1971/72 it was still considerably higher than to many more populous provinces.[2]

[1] In 1971/72 West Java received a Rp 6.85 billion subsidy from the central government for routine expenditures, compared with Rp 9.15 billion to Irian Jaya. In that year, the 21 million residents of West Java received Rp 317 per capita while residents of Irian Jaya received Rp 11,024. See R. Daroesman, 'An Economic Survey of West Java', *Bulletin of Indonesian Economic Studies*, 8(2), July 1972, p. 47.

Comparison is complicated by the inclusion of subsidies to central government departments in the central government grant to Irian Jaya. There are no equivalent grants to other provinces. But excluding these grants the subsidy to Irian Jaya was over 13 per cent of the total Rp 83.5 billion grant to the provinces in 1972/73. See RAPBN 1971, 1972/3.

[2] For example, West Sumatra and North Sulawesi. See Hindra Esmara, 'An