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Development in Southeast Asia's lagging Regions

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Abstract

This paper aims to analyze and identify successful national and regional policies in these lagging regions in Southeast Asia: the three Southern border provinces of Thailand, Mindanao in the Philippines and Papua in Indonesia. In particular, it will assess and compare the effectiveness of fiscal transfers, local empowerment policies as well as regional autonomy strategies in these regions. The general conclusion of this paper is that providing a large amount of development funding and granting autonomous authority most likely required to enable these regions to keep up with the development of other areas in their countries. Appropriate affirmative action policies are needed to help solve the priority issues of national development such as urban-rural development divide and the gaps between the local and immigrant communities.

Key words: Development economics, lagging regions, regional autonomy, and fiscal policy

JEL: O21, O23, O38, R58

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1. Introduction

Southeast Asia is a significant part of the world. It accounts for approximately 3% the world's landmass and in 2013 the population was approximately 600 million. In these two respects it is similar to Latin America. In 2003, Latin America's gross domestic product (GDP) per capita was approximately three times that of Southeast Asia. However, Southeast Asia's economy has been growing much faster than Latin America's. In real terms, the GDP of Southeast Asia grew at an average annual rate of approximately 5.5% in the four decades up to 2014, while over the same period the Latin American economy grew at an annual rate of 3.1%. In fact, the only other parts of the world of comparable size and population that have grown faster than Southeast Asia are China since the late 1970s and India since the early 1990s (World Bank, 2014).

At this rate of growth, Southeast Asia's economy has almost doubled every 10 years. Southeast Asia has also become much wealthier. Its average GDP per capita has increased from approximately USD500 in the early 1980s to approximately USD3,500 in the mid 2010s. The level of poverty has also declined. For example, based on the country poverty line, the percentage of poor people in Thailand declined from approximately 58.1% in 1990 to approximately 12.6% in 2012, in Indonesia from approximately 23.4% in 1999 to approximately 11.4% in 2013, and in the Philippines from approximately 26.6% in 2006 to approximately 25.2% in 2012 (World Bank, 2014). Southeast Asia has definitely been one of the most dynamic regions in the world with plenty of development success stories. In general, it has demonstrated the merits of more open economic policies à la the Washington consensus (Hill, 2013; Coxhead, 2015).

Despite this growth, levels of development between and within these countries vary greatly. With respect to inter-country differences, for example, Malaysia's GDP per capita in 2013 was approximately USD10,000, which is more than 4 times that of Vietnam. Within countries, for example in Indonesia, the percentage of poor people in Papua in 2012 was 31%, while it was only 4% in Bali (BPS, 2014). In Thailand, the percentage of poor people in the three Southern border provinces; i.e. Pattani, Narathiwat and Yala, was approximately 23.9% in 2011, while the national percentage was about 13.1%. There are regions in almost every country in Southeast Asia that are lagging behind. Notable examples include Papua, the three Southern border provinces in Thailand, and Mindanao in the Philippines (Sarntisart, 2005; Querubin and Robinson, 2013; Resosudarmo, Mollet, Raya and Kaiwai, 2014).

Interestingly enough, most of the lagging areas in Southeast Asia share similar characteristics, such as isolation from the capital and the countries' mainstream, controversial circumstances of incorporation within the nation state, conflicts, ethnic/religious minorities, resource abundance, divided local leadership and unsympathetic rule from the centre. These characteristics are actually not exclusive to Southeast Asia but are also evident in lagging regions in other parts of the world (Sachs and Warner, 1995; Akerlof and Kranton, 2000; Krishna, Mitra and Sundaram, 2010).

Policymakers and academics continue to have a limited understanding of national and regional policies that could accelerate economic development, particularly among local people in persistently lagging regions. This chapter aims to address this gap by identifying successful national and regional policies, and understanding the channels through which these policies affect economic, as well as human, development in these lagging regions. The chapter will focus on the three regions referred to above, namely the three Southern border provinces of Thailand, Mindanao in the Philippines and Papua in Indonesia (Figure 1). In particular, this chapter will assess and compare the effectiveness of implementing higher fiscal transfers, local empowerment policies as well as regional autonomy strategies in these regions. In all these three cases, higher fiscal transfers and local empowerment policies have been implemented in the last decade. However, regional autonomy strategies have varied.

Figure 1. Map of Southeast Asia



Note: The lagging regions discussed in this chapter (Southern Border Provinces of Thailand, Papua of Indonesia, and Mindanao of Philippines) are colored in red.

In 1989, in accordance with the 1987 Constitution, special autonomy was granted to Muslim dominated areas in Mindanao, called the Autonomous Region in Muslim Mindanao (ARMM). With the Comprehensive Agreement on the Bangsamoro, signed in 2014 between the Aquino Administration and the Moro Islamic Liberation Front (MILF), a new political entity called the Bangsamoro Autonomous Government will soon replace the ARMM. In Indonesia, since 2004, special autonomy has been granted to Papua, with the result that it receives a much larger share of the revenue from its natural resource extractions and special development funding, as well as much greater autonomy in spending its revenue. In contrast, the three Southern border provinces of Thailand have not yet been granted any autonomy.

2. The Case of the Three Southern Border Provinces of Thailand

In 2004, a significant new wave of unrest and conflict broke out in the three Southern border provinces, Pattani, Narathiwat, and Yala, which were formerly the Sultanate of Pattani. On January 4, 2004, four soldiers were killed and a large cache of weapons was stolen from the 4th Development Battalion in Narathiwat's Cho Airong district. This incident was followed by two important conflicts in the same year. First there was the Krue Se Mosque incident on April 28 that resulted in the deaths of more than 30 members of the insurgency at the hands of Thai soldiers. The Tak Bai incident followed on October 25, in which 78 of the almost 1,300 detainees died of suffocation for protesting the detention of six of their friends. From 2004 to the mid 2010s, 11,754 instances of unrest occurred in the area, resulting in 9,137 injuries and 5,206 deaths. Among the injured, 5,327 were identified as Buddhists while 2,847 were Muslims. In the case of deaths, 2,001 were identified as Buddhists and 3,064 as Muslims (Abuza, 2011).

The history of conflict and violence in the three provinces can be traced back for more than a hundred years, during which the area experienced both independence as well as being part of the Thai Kingdom. History shows that the three Thai provinces and the northern part of Malaysia formerly constituted the Sultanate of Pattani. This is why most of the Thai residents are of Malay ethnicity. These provinces are also home to 50% of Thailand's minority Malay - Muslim community. While most of Thailand has been part of the kingdom for a much longer period, the three Southern border areas and a few other regions were annexed to the Thai kingdom as late as the 20th century (Che Man, 1990).

Malaysia has been an important neighbour of Thailand. Its GDP per capita is higher and it has been a significant trading partner for Thailand. Malaysia-Thailand trade stood at approximately USD24.8 billion in 2011. Malaysia is currently Thailand's 4th largest trading partner, and Thailand is Malaysia's 5th. Moreover, 70% of this trade is reported to be cross-border (Hill and Menon, 2010). This agricultural border trade and the good cross-border infrastructure connectivity might induce a stronger bond between Malays in Thailand and their brethren in Malaysia, as compared to the rest of Thailand.

The insurgent activities in southern Thailand have multiple, interrelated causes. There is a history of conflict between the Pattani and Siam Kingdoms as well as their different histories, including Pattani's relatively recent annexation by Thailand. Then there are the differences in religion and ethnicity in the provinces compared to the rest of the country, exacerbated by unfair treatment and the discrimination experienced by locals, in addition to illegal activities such as drugs and illicit trade (Sarntisart, 2014). However, many researchers also believe

that the crucial issues are poverty and economic inequality between this region and other parts of the country (Sarntisart, 2005).

With regard to development progress, while the level of poverty for the whole nation declined from approximately 65.3% in 1988 to about 26.8% in 2004, the level of poverty in the three provinces, which was only slightly higher than the national average in 1988, only declined to 45.5% in 2004. The per capita Gross Provincial Product (GPP) data show a similar picture: the regional income of the three provinces was approximately 60% of that of the whole nation in 1981, but declined to less than 50% in 2004. These two development indicators show that development progress in the three Southern border provinces has lagged behind the national average. We now examine the economic policies and performance in the three provinces since 2004 and their development impact.

2.1. Government Approaches since 2004

Since the 2004 unrest and conflict, the Thai government has implemented new strategies to accelerate development in the region. These strategies include a special development fund for the three provinces, affirmative action for the Muslim population, and the possibility of greater regional autonomy.

Regarding transfers to the regions, the main strategy has been to drop larger government funds to the region by creating a Special Fund for Counterinsurgency Operations and Development. The fund was around THB13.5 billion in 2004, then steadily increased to approximately THB27 billion in 2009. It was cut to approximately THB16 billion in 2010 due to the global economic crisis affecting the Thai economy, but was increased again the following year and has remained relatively stable at approximately THB24 billion since then (Abuza, 2011). However, it is difficult to trace exactly how this fund has been spent.

The Thai government has also implemented policies to improve the socio-economic status of Muslim Thais who constitute the majority of the population in the three provinces. These policies serve the dual purpose of fostering their well-being, as well as being a way of showing that the government recognizes the special needs of this group. The first initiative was to strengthen the Islamic banking system, which was established in 2002, by pulling in more funds to enhance access to the banking sector for Muslim Thais. Thailand currently has three Islamic banks, namely, the Government Savings Bank (which is not actively operating), the Bank for Agriculture and Agricultural Cooperatives, and the Islamic Bank of Thailand. The first two are conventional banks that offer Islamic financial services (through an Islamic window). The third is a fully-fledged Islamic bank (Sarntisart, 2015).

Second, the government has allocated funds to strengthen the Halal industry and tourism to provide more jobs for the Muslim Thai population. For example, the establishment of medical services targeted at people from Middle Eastern countries has employed many Arab-speaking Thais, who are mostly Muslim Thais and include those from the three provinces.

Third, in 2006, a Zakat Fund Promotion Act was initiated and drafted by a program known as the Well-Being Promotion for Muslim Thai Program (WBPMTF, 2014). Zakat is a process of transfers, according to Islamic rules, from Muslims who are wealthy or have income above a certain threshold, to the poor and the needy. The Act is expected to promote the establishment and the operation of community Zakat funds in all Muslim communities in Thailand, to lessen the problem of income inequality, alleviate poverty, and reduce the government burden in poverty reduction. However, by mid 2015, i.e. after nine years, the Act had yet to be discussed and enacted by the House of Representatives.

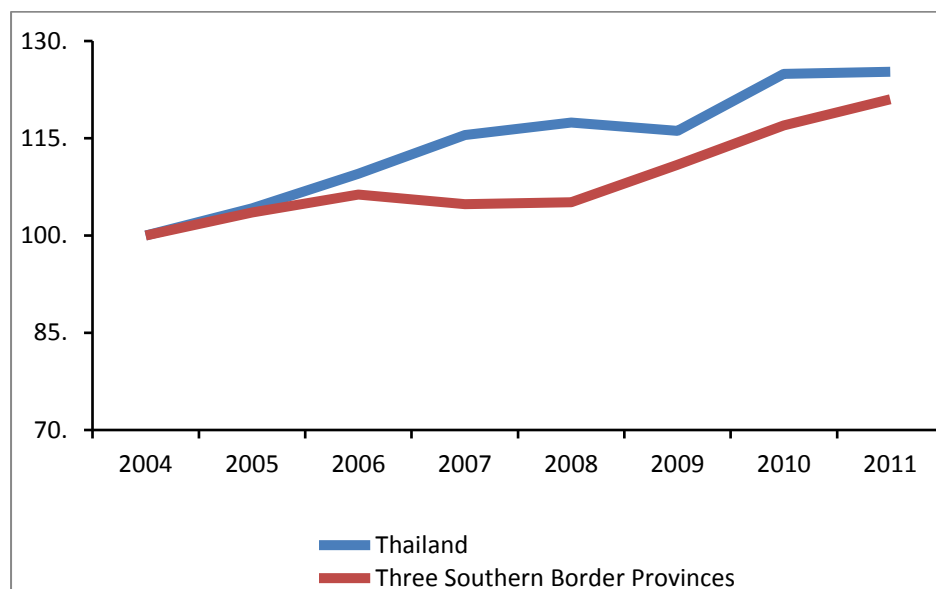
The idea of politically autonomous administration in the three Southern border provinces is an important issue. Many government officials, including police, are sent from Bangkok and lack an understanding of the Islamic culture and traditions embraced by the majority of the population in the south. Along with feeling mistreated, Muslim Thais in the three provinces often feel that the current political administration and system is unjust and that the Thai government has double standards towards them as compared to the majority Buddhist Thais.

Whereas previously the topic of greater autonomy for the three provinces was taboo due to the fear that they would become independent of Thailand, since 2004 many politicians and academics have argued that greater autonomy would be a way of remedying feelings of injustice and improving policies for the local people. In sum, the envisaged system could be a special administrative region that includes Pattani, Narathiwat, Yala, and possibly four Malay-speaking districts in Songkhla. The system could be similar to the one implemented for Bangkok and Pattaya. The three border provinces should have their own administration focusing on the decentralization of power and enhancing local self government. The people should have the right to choose their own mayor, not one appointed by Bangkok. They should have full access to political participation at all levels and the chance to design policies that suit their needs and religious values.

2.2. Development Outcomes since 2004

Figure 2 shows the level of economic development for the three provinces and for Thailand measured by the growth of real gross domestic product (GDP) since 2004. It can be seen that economic growth has fluctuated since 2004 and in most years has been lower than the national average.

Figure 2. Economic Growth in Thailand, 2004-11



Note:

- Levels of GDP in real terms both for the three Southern border provinces and for Thailand are indexed to 100 in 2004.
- Throughout this period, Bangkok's growth is lower than the national average but slightly higher than the three Southern Borders.

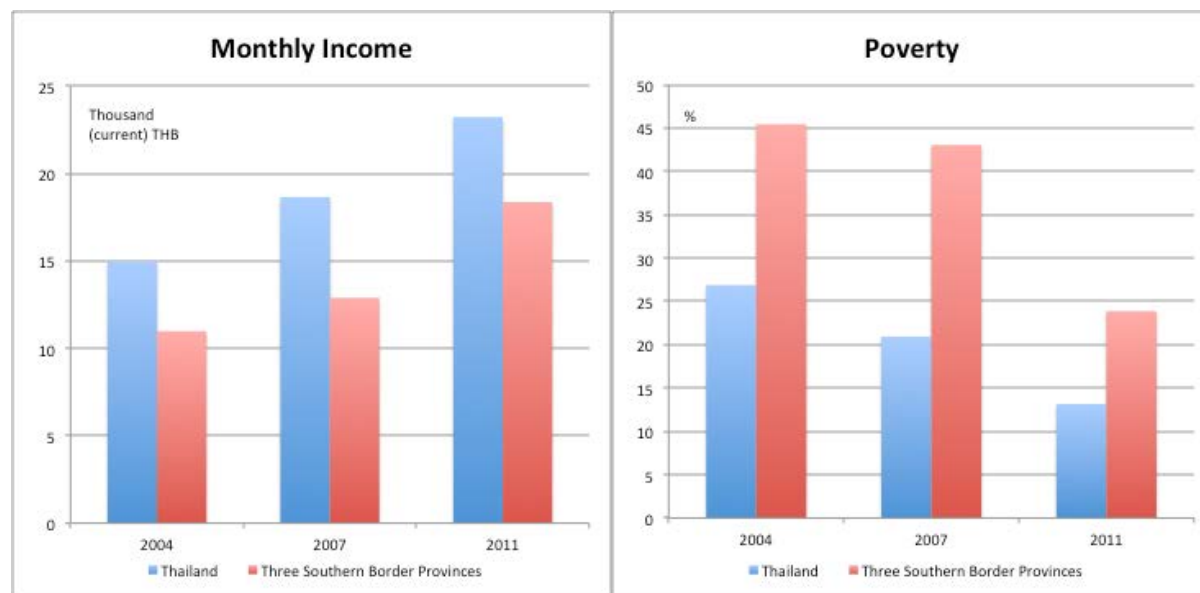
Source: Office of the National Economic and Social Development Board, Thailand (http://www.nesdb.go.th/nesdb_en/main.php?filename=index).

When comparing average monthly household incomes and the level of poverty in the three provinces with the national average, different conclusions can be derived (Figure 3). The average monthly household income in the three provinces was approximately 0.73 of that at the national level in 2004 while in 2011 it was 0.79. That is, the ratio is slightly higher, but it would be premature to conclude that the gap has reduced significantly.

The percentages of poor people in the three provinces and for the whole of Thailand were approximately 45.4% and 26.9% in 2004, respectively. These numbers reduced to 23.8% and 13.2% in 2011. It can be seen that there is a larger reduction in the percentage of poor people in the three provinces than for the whole nation during the period 2004-2011. Hence,

it can be argued that the level of poverty in the three provinces has declined at about the same rate as the rest of the country.

Figure 3. Average Monthly Household Income and Poverty Incidence, 2004-11



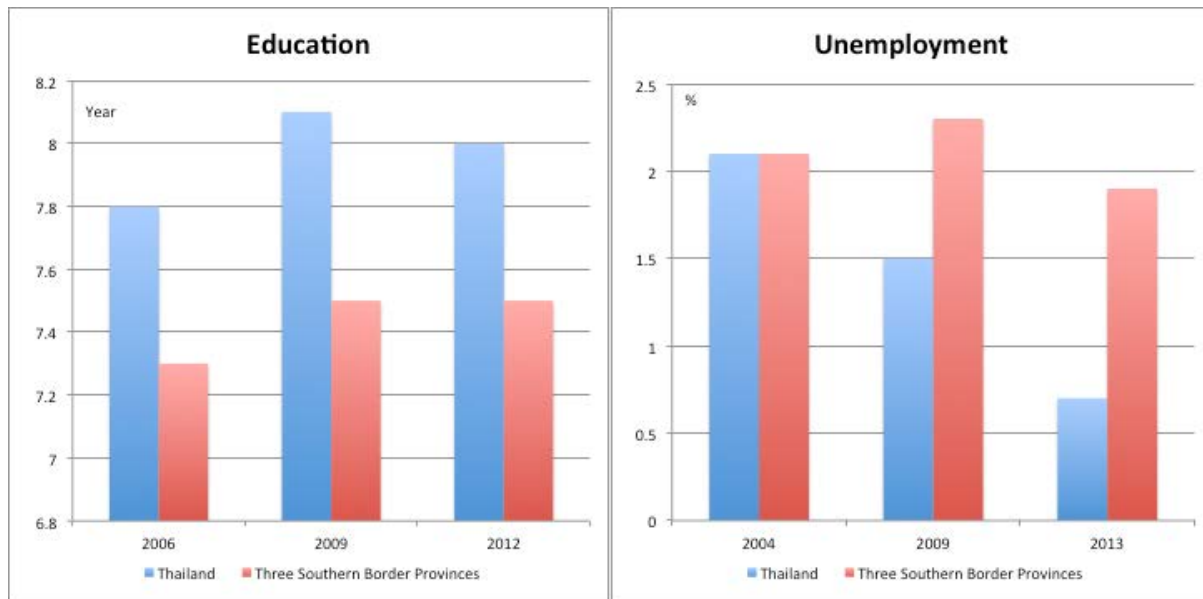
Source: National Statistical Office, Thailand (<http://web.nso.go.th/>).

As noted, since 2004 the economy of the three provinces has grown more slowly than the nation as a whole and there is no clear evidence that the average monthly household incomes and the level of poverty in the three provinces have improved faster than the national average. This indicates that either the implementation of the Special Fund for Counterinsurgency Operations and Development and affirmative actions for Muslim Thais has so far not been that effective or that the negative impact of insurgent activities, unrest and conflicts has been higher than the benefits from development programs in the regions.

The conflict has also affected migration patterns in the southern provinces. Year by year, more people have fled to other municipalities or provinces. The percentage fleeing within the same municipality declined from nearly 60% in 2004 to only 43% in 2008. During the same period, the percentage fleeing within the conflict zone increased from 11% to nearly 18%, while the percentage fleeing to outside the conflict zone increased from 29% to 39%. The overall rate of migration out of the conflict-affected provinces has increased by 133% since the violence erupted. Until 2004, more people moved into the three provinces than out, with a net in-migration rate of 1,500 per 100,000 inhabitants. However, after 2004 significantly more people moved out of the region than into it, resulting in an estimated 500 net out-migrants per 100,000 inhabitants (Patrawart, 2011).

An examination of the levels of education attainment and unemployment rates in the three provinces might shed light on their inability to perform as well as the national level. From Figure 4 it can be seen that, although average educational attainment in the three border provinces has improved during the period 2004-2013, there is still a gap between their performance and the national level. That is, educational attainment in the three provinces remains 0.5 years lower than the national average. Figure 4 also shows a worrying situation related to unemployment. It is true that the level of unemployment in the three border provinces was relatively low until 2012 and the level has declined since. The gap between the levels of unemployment in the three border provinces and at the national level, however, has increased from almost no gap in 2006 to 1.2% higher in 2012. These educational attainment and unemployment levels suggest that, unless there is a much more progressive development policy in the three provinces, the development gap will remain. This more progressive policy could take the form of much greater and more effective spending on the Special Fund for Counterinsurgency Operations and Development, a wider range of affirmative policies that do not create negative externalities, for example scholarships and improving the quality of education in the region, or giving greater autonomy to local governments so more effective policies could be developed.

Figure 4. Educational Attainment and Unemployment Rates



Source: National Statistical Office (<http://web.nso.go.th/>) and Office of the National Economic and Social Development Board (http://www.nesdb.go.th/nesdb_en/main.php?filename=index), Thailand.

3. The Case of Mindanao

The root cause of conflicts in Mindanao can be traced back as far as the 16th century when the Spaniards arrived, colonised and managed to convert most of the Philippines to Christianity except for the Muslims of Mindanao (or Moro as they call themselves) (Jubair, 1985). For centuries, the Spanish colonial government enlisted the Christian converts from Luzon and Visayas to aid in the fight against the Moros.

Via the Treaty of Paris in 1898, Spain ceded the Philippines to the Americans, including Mindanao as an integral part of the country despite the reluctance of the Moro people. Before granting independence to the Philippines in 1946, the Americans incorporated Mindanao into the Philippine state, subordinating the Moro people to political control from Manila and passing laws that formally dispossessed them and other indigenous tribes of their ancestral lands. Settlers from Luzon and Visayas migrated to Mindanao under sponsorship and encouragement from the government. These new settlers occupied fertile lands and established colonies in various parts of Mindanao. By 1976, the Moros and other indigenous tribes owned less than 17% of the Mindanao land that they once owned almost exclusively (Rodil, 1992).

After Philippine independence, the first secessionist group was the Mindanao Independence Movement (MIM) founded in 1968 as a reaction to the execution of at least 28 Moros on the island of Corregidor as they refused to follow orders from the Armed Forces of the

Philippines (AFP). Nevertheless, it is suspected that the formation of this group was more due to the fact that there was a development gap between Moro people and the rest of the country and in response to cases of land grabbing by government sponsored settlers (Majul, 1988). Various insurgency groups that are not united, and for most of the time are in competition with one another over representation of the Moro people, have formed since then. This has created ongoing unrest and violence throughout the islands of Mindanao, making the conflict one of the most complex in Southeast Asia.

It was during the presidency of Ferdinand Marcos (1965-1986) that the conflict reached its height. What started out as a protest movement in response to the death of young Moro recruits in the Jabidah Massacre then led to the formation of armed separatist groups led by MIM, then by the Moro National Liberation Front (MNLF) and finally the Moro Islamic Liberation Front (MILF). When Martial Law was declared by President Marcos in 1972 to perpetuate his hold on power and quell unrest, the fighting in Mindanao intensified into a full-scale war between government forces and the MNLF. Peace mediation by Muammar Gaddafi of Libya finally induced the opposing parties to sign the 1976 Tripoli Agreement, which stipulated that the MNLF had to renounce their struggle for an independent Bangsamoro State and settle for a meaningful autonomy. However, a provision within the peace treaty states that the national government can only operate within the framework of the Constitution. This serves as a basis for the national government to implement its own kind of autonomy, which is not acceptable to the MNLF and, as a consequence, the conflict in Mindanao continues (Majul, 1988).

The conflict in Mindanao has also become one of the longest actively running conflicts in the world. From the 1970s through until around the end of 2010, the conflict claimed the lives of more than 120,000 people, while the economic cost of the conflict is estimated to be more than USD10 billion (Barandiaran, 2002, Schiavo-Campo and Judd, 2005, World Bank, 2010). The impacts of the conflict have also put Mindanao in a perpetual state of insecurity resulting in the lower socio-economic standing of the people, especially in Bangsamoro where the development outcomes are the lowest in the country. In addition, the presence of conflict in Mindanao has realigned the country's defence spending so that it is focused on internal rather than external threats. Prior to the start of the conflict the Philippines possessed one of the strongest military forces in the region. Decades of warfare in Mindanao have left the country unable to fund the modernization of its military forces and protect its exclusive economic zones against external threats.

3.1. Government Approach after Marcos

We focus here on economic policies and performance in Mindanao after the Marcos era to determine whether these interventions have improved development in the region. The government's main response to the problems in Mindanao has been to set up an autonomous region and build peace with insurgence groups. In 1986, when Marcos was overthrown in a People's Revolution, Corazon Aquino assumed the presidency and faced the challenge of resolving the conflict. She called for the adoption of a new Philippine Constitution in 1987, which included a provision giving autonomy to Muslim Mindanao. This led to the creation of the Autonomous Region of Muslim Mindanao (ARMM), which included Lanao del Sur and Maguindanao in the Southwest of the main Mindanao island as well as the islands of Basilan (except Isabela City), Sulu and Tawi-Tawi. Except for Tawi-Tawi, these are the areas where most conflict occurs (HIU, 2010). ARMM serves as an institution to help the Bangsamoro develop and prosper along with the rest of the country.

A peace negotiation with the MNLF was also undertaken under Corazon Aquino. Eventually, the peace talks bore fruit when the national government, by now under President Fidel Ramos, and the MNLF signed the 1996 Final Peace Agreement. Under President Estrada the peace negotiations were abandoned and a belligerent policy against secessionist groups, especially the MILF, was adopted. In due course, Estrada declared "All-Out War" against the MILF, resulting in massive destruction of infrastructure and private property, economic stagnation in Mindanao and internal displacement of millions of people. In 2001, his successor President Gloria Arroyo reversed the belligerent policy and restarted peace negotiations with the MILF. A peace deal was reached in 2008 under the Memorandum of Agreement on Ancestral Domain (MOA-AD), to give meaningful autonomy to the Bangsamoro and expand the area of the ARMM. Unfortunately, the MOA-AD was questioned in the Supreme Court and subsequently declared unconstitutional due to lack of consultation with citizens who would be affected by its implementation. The frustration of some members of the MILF over lack of sincerity on the part of the national government to implement its commitments resulted in armed fighting and reignited the conflict in Mindanao. The peace negotiations with the MILF were resumed in earnest by the succeeding administration under Benigno Aquino III with the aim of finally putting an end to the conflict in Mindanao.

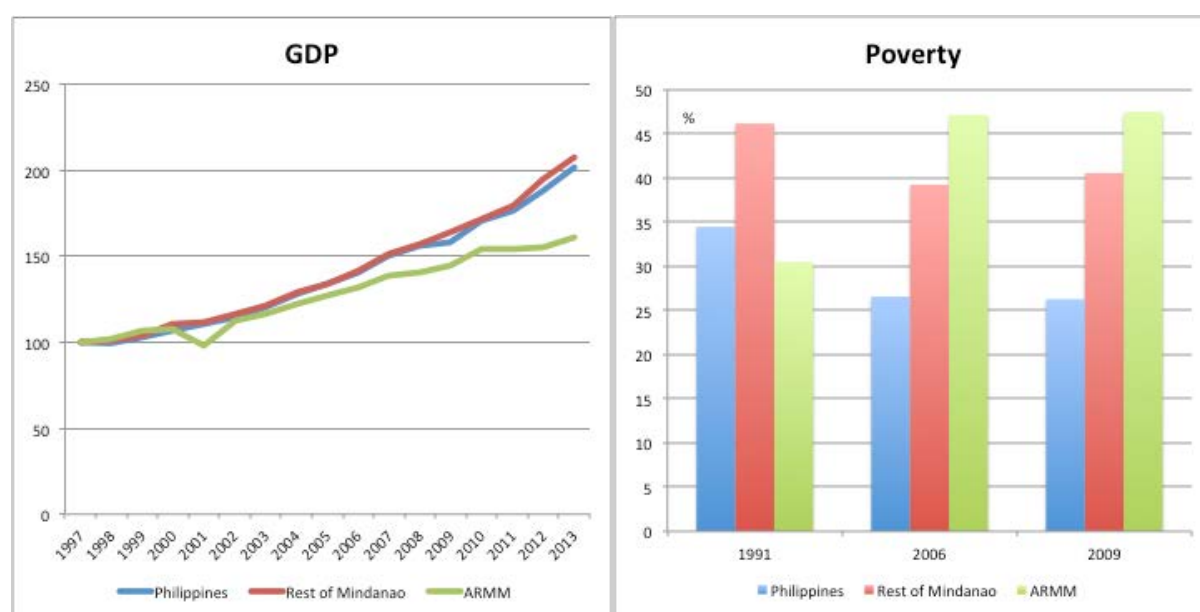
With the help of the Malaysian Government, the peace negotiations resulted in the signing of the Framework Agreement on the Bangsamoro on October 2011 and the Comprehensive Agreement on the Bangsamoro (CAB) on March 2014. Under the agreement a Bangsamoro Transition Commission (BTC) was created to craft the Bangsamoro Basic Law (BBL) that will govern the new autonomous region in Muslim Mindanao that will replace the ARMM. The

BBL is still pending approval from the Philippine Congress and still needs to be ratified through a plebiscite by residents in the affected area for it to take effect.

3.2. Economic Development the Autonomous Region of Muslim Mindanao

Figure 5 shows economic growth and poverty in the ARMM, the rest of Mindanao and the whole of the Philippines since the 1990s. It can be seen that the ARMM was the only part of Mindanao that did not grow as fast as the nation as a whole. The data also reveal that, while the percentage of poor people declined in the rest of the nation, it increased in the ARMM from 1991 to 2009.

Figure 5. Economic Growth and Poverty in the Philippines



Note: Levels of GDP in real terms for the Philippines, ARMM and the Rest of Mindanao are indexed to 100 in 1997.

Source: Philippine Statistics Authority, Philippine (<https://www.psa.gov.ph/>), Philippine.

Continuous military conflicts and slow economic growth has caused a decline in the number of people living in the ARMM. According to the National Statistics Office, the ARMM population dropped from 4.3 million in 2007 to 3.2 million people in 2010, or almost 1 million people in 3 years (Table 1).

Table 1. Population (Thousand People)

Area	2007	2010
National Capital Region	11,566	11,856
ARMM	4,121	3,256

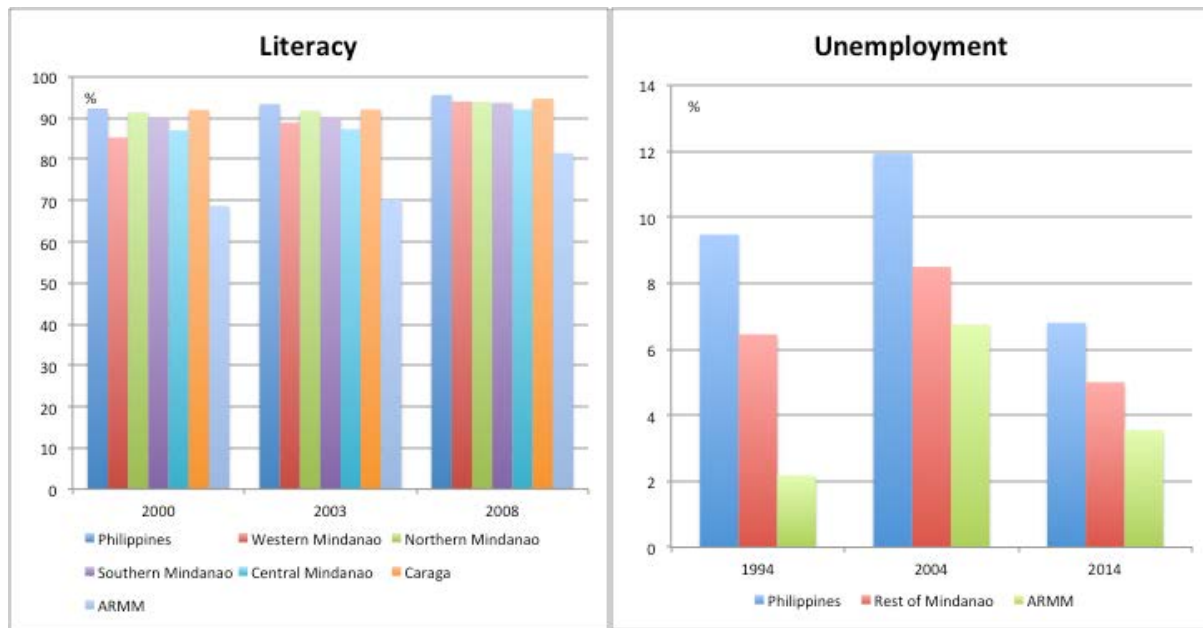
Philippines	88,567	92,338
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Note: Population counts for the regions do not add up to national total.

Source: National Statistics Office (<http://census.gov.ph/>) and Land Management Bureau (<http://lmb.gov.ph/>), Philippine.

Observing the level of education, measured by the literacy rate, in the ARMM region, it has most likely been improving but the gap remains rather large. While the literacy rate in other areas, including the rest of Mindanao, was above 90% in 2008, it was just above 80% in the ARMM region (Figure 6). The unemployment rate in the ARMM region has generally been lower than the rest of the country. However, while employment rates for the rest of the country from 1994 till 2014 have tended to decline, they have increased for the ARMM region. Judging by these development indicators, one can conclude that development gaps between the ARMM and the rest of the country have not closed. There are even indicators that show that these gaps have widened in the last 20-30 years or so.

Figure 6. Literacy and Unemployment Rates



Note: Literacy rate for the population aged 10 years old and over.

Source: Philippine Statistics Authority, Philippine (<https://www.psa.gov.ph/>), Philippine.

Regarding the ARMM case, if the development gap between the Bangsamoro and the rest of the Philippines has been one of the most important causes of conflicts, setting up an autonomous region might not work. It is not surprising then that conflicts have been ongoing despite the establishment of the ARMM. Insufficient fiscal transfer payments may be one of the reasons. The fiscal transfers for the ARMM region accounted for 1.96% of the local government budget in 2013. The per capita fiscal transfers only grew by 13%, that is, from PHP6.3 in 2011 to PHP7.1 in 2013 (ARMM, 2013). Another reason for the lack of development in the ARMM region is associated with the lack of investment. It is true that the level of investment varies significantly across time. This is due to some major investment projects that required a substantial capital outlay. For example, large investments in the mining sector, which besides food processing are the dominant investments in Mindanao, require considerable funds to set up equipment and machinery. However, Table 2 shows that the level of investment in the ARMM has been consistently lower than the rest of Mindanao for at least the last 30 years.

Table 2. Approved Investment Projects in Mindanao (Billion PHP)

	1997	2000	2003	2006	2009	2011
Zamboanga Peninsula	11.2	5.3	15.1	1.0	1.4	0.6
Northern Mindanao	82.4	14.5	3.0	7.5	11.2	2.6
Davao Region	11.3	19.4	1.7	2.3	9.9	38.5
Soccsksargen	15.6	3.7	0.3	2.2	4.0	0.8
Caraga	4.1	2.2	2.3	1.7	2.4	49.6
ARMM	1.5	1.2	0.6	0.3	0.1	0.5

Sources: Department of Trade and Industry, Mindanao Development Authority, Regional Board of Investment, Autonomous Region in Muslim Mindanao, Philippine (http://dtiarmmgov.ph/?page_id=6).

Note: The value of total investments may be understated since there are some investments that are not registered with the Department of Trade and Industry (DTI) or with the Board of Investment (BOI).

In the ARMM region, relatively large investments in 1997 and 2000 can be attributed to the concerted effort of the national government, international donors, and the private sector to jumpstart ARMM's economy after the signing of the 1996 Final Peace Agreement with the MNLF during the Ramos Administration. Unfortunately, investment subsequently declined. Bad administration by the Ampatuan Clan, considered to be one of the most corrupt and abusive political dynasties in the country, and long term conflict that has created an atmosphere of lawlessness and insecurity contributed to this decline (HRW, 2010). However, the dismal investment in the ARMM region is also primarily due to its low level of infrastructure, shortage of other supporting industries and lack of skilled manpower. This is most likely due to the absence of policy to deploy a huge government development budget, i.e. special development fund, to the region. If there is some government development budget, the size of the fund is most likely not large enough.

4. The Case of Papua

Even during the Dutch colonial era, development in Papua lagged many parts of Indonesia. The Dutch did not manage to exploit this natural resource rich island, owing in part to its challenging geographic conditions and the low population settlement. Papua has also a different history of annexation as compared to other parts of the former Dutch East Indies. When the United Nations acknowledged the independence of Indonesia in 1949, other parts of the former Dutch East Indies became part of Indonesia. However, in spite of Indonesia's claim that its territory to be all of the Dutch colony, Papua was not included. The Dutch persisted in keeping Papua under their authority (Chauvel, 2005; McGibbon, 2006).

Through both military aggression and diplomatic approaches at the UN, Indonesia continued to demand the annexation of Papua. In the 1950s, the Dutch argued that Papuans are of different ethnicity and so should be a separate country and they started preparing Papua for independence. In the 1960s, in response to various international pressures, the Dutch agreed to temporarily transfer the territory to the UN Administration. In 1969, through a referendum of debatable validity, Papua became a province of Indonesia and was renamed West Irian, with Jayapura as its capital. This controversial history, and an expectation that the Dutch would grant them independence, led to the formation of movements among the local elites calling for Papua to become an independent state. Though relatively low level, sporadic and only intermittently violent, a significant number of deaths ensued in the protests. These independence movements have consistently challenged the legitimacy of Indonesian rule ever since.

Over the following decades, the Indonesian government attempted to weaken Papuan independence movements and accelerate development by allocating a higher level of funding per capita to Irian Jaya than to the other Indonesian provinces. However, critics argued that it was far less than the revenue generated by the region's natural resources. In particular, much of the revenue from the hugely profitable Freeport mine in Mimika district went straight to the central government.

To accelerate development, the government also encouraged migration into Papua. By 2010, the proportion of migrants in Papua was a little more than 20%, while it was approximately 10% in 1980. In several major cities such as Jayapura, Biak and Sorong, the proportion of migrants is close to 50%. More than 60% of these migrants are Muslims. In contrast, close to 80% of local Papuans is Christian. Furthermore, it can be argued that, in general, migrants have been more successful in accumulating wealth than local Papuans (Resosudarmo, Napitupulu, Manning and Wanggai, 2009; Resosudarmo, Mollet, Raya and Kaiwai, 2014).

The sentiment that Jakarta was receiving more money than it transferred to Papua, and the increasing number of migrants, who in general were economically more successful, fueled tensions between Jayapura and Jakarta. The most critical period in the relationship between Jakarta and Jayapura was from 1998 to 2001. The resignation of President Soeharto in mid-1998 and East Timor's successful demand for a referendum on independence intensified separatist hopes in West Irian. On the other hand, the fall of Soeharto also marked a big bang shift in the whole nation, with Indonesia transforming from

a fairly autocratic government into a much more democratic one and from a centralized system of government to a much more decentralised one. This period is often called a Transformation (*Transformasi*) Period. In late 1999, when Abdurrahman Wahid became president, he introduced a more accommodative and culturally sensitive approach to the question of ethnic conflict and separatist demands by changing the name of the province to Papua (Sumule, 2003; McGibbon, 2004, 2006; Resosudarmo, Manning and Napitupulu, 2009). To maintain good relations with the provincial elites, the president also endorsed the development of a draft bill on special autonomy for Papua.

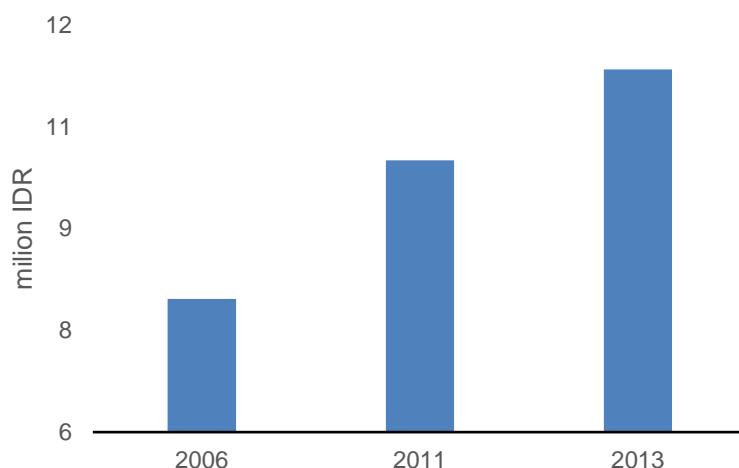
4.1. Government Approach in the Era of Reformation

We now focus on economic policies and performance in Papua since 2000 when the more accommodative approach commenced, to understand whether these policies improved development in the region. Wahid's intention to reduce the conflict in Papua did not initially progress easily. In 2000, as part of this more accommodative policy, the government supported the implementation of a congress with a theme of straightening out Papua's history. This congress was used by people sympathetic to the Papua Independent Movement (OPM), who called the congress the Papua People's Congress II. This was to establish a link with a previous congress held at the end of Dutch colonization in 1961, when independence had been declared, to greatly strengthen the organisation of the movement by establishing the Papua Presidium Council to prepare an independent Papua. This movement induced various conflicts and violence between the military and local Papuans, resulting in several deaths among military personnel, Papuans as well as migrants, who were attacked by local Papuans (Malley, 2001).

On the other hand, it took a long series of debates to establish special autonomy for Papua. In 2001, while a much more decentralized system of government was implemented nationwide, the national parliament finally enacted the Law on Special Autonomy for Papua. The special autonomy legislation gave the provincial government authority over decision making in all sectors except international affairs, defence, monetary and fiscal policy, religion and justice, as well as a far higher share of the revenue originating in Papua than applied to other provinces. It specified that the province would receive 80% of the revenue from its forestry, fishery and mining sectors, and 70% of the revenue from its oil and gas sector until 2026, and 50% thereafter. In addition to the financial transfers from the central government that all provinces receive, until 2021 Papua will receive additional special autonomy funds (*dana otsus*) amounting to 2% of the total national General Purpose Fund (*Dana Alokasi Umum*, DAU) to accelerate development in Papua (Resosudarmo, Napitupulu, Manning and Wanggai, 2009; Widjojo, 2010).

Implementation of special autonomy was slow. In 2003, before the transition to special autonomy was complete, the central government split Papua into two provinces: Papua province with Jayapura as its capital, and West Papua (initially called West Irian Jaya) province with Manokwari as its capital.¹ Despite debate over whether dividing Papua into two separate provinces was the right decision, this provincial split, coupled with the special autonomy law, besides giving Papua more authority, significantly increased fiscal transfers to the island. For example, the special autonomy fund was approximately 25% and 29% of government income in Papua province and West Papua province, respectively, for 2011 (Resosudarmo, Mollet, Raya and Kaiwai, 2014). Moreover, the fiscal transfer per capita in Papua increased by 13% from 2011 to 2013, from approximately IDR10 million in 2006 to approximately IDR11.4 million in 2013 (Figure 7).

Figure 7. Fiscal Transfers to Papua (per capita)



Source: Statistics Indonesia (www.bps.go.id) and Ministry of Finance (<http://www.kemenkeu.go.id/en>), Indonesia.

The euphoria of the decentralization policy has also encouraged various informal affirmative policies in the regions, and Papua it is no exception. There is a great deal of pressure to have locals (*Putra Daerah*) as government officials. For example the governor and head of district (*kabupaten*) should be indigenous Papuans. Also, the majority of government projects should be given to local contractors.

Finally, in response to critics arguing that the benefits of development have been concentrated in resource-rich enclaves and urban areas, by-passing most rural areas, which

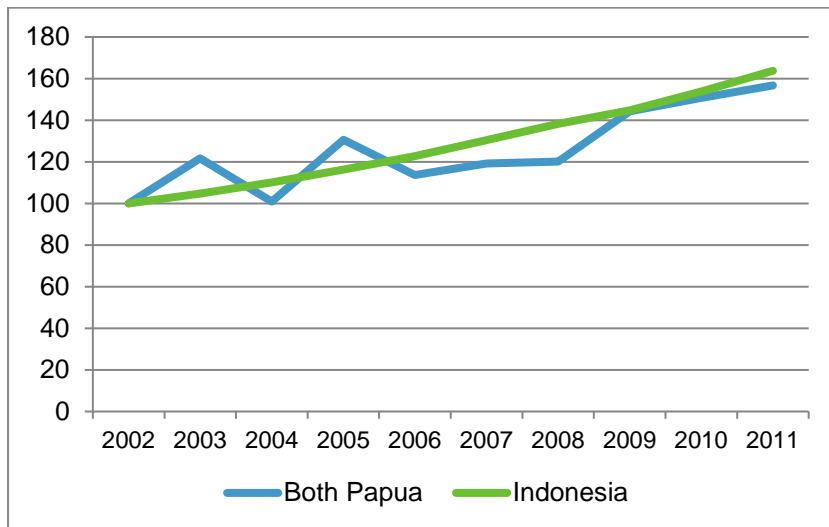
¹ From now on, we use Papua to refer to both Papua and West Papua provinces.

is where most indigenous Papuans live, the government of both Papua and West Papua provinces have created a program to directly hand approximately USD10,000 to each village in those provinces (Resosudarmo, Mollet, Raya and Kaiwai 2014).

4.2. Economic Development in Papua

Figure 8 shows the level of economic development, measured by GDP, for Papua and Indonesia. After receiving special autonomy, Papua's economy grew at a similar rate as the national level albeit exhibiting slightly lower and more variable growth. However, even before special autonomy, the economy of Papua in general was able to grow at around the national level (Resosudarmo, Napitupulu, Manning and Wanggai, 2009). Also, given that the mining (including oil and gas) sector contributed at least 70% of the Papuan economy, the economic fluctuations at the macro level mostly originate from the mining sector. It is also important to look beyond these macro indicators, since mining activities typically only create enclave economies surrounding the mines. Hence, for the Papua case it is important to look at household-level indicators.

Figure 8. Level of Economic Development



Note: Levels of GDP in real terms for the whole of Papua and West Papua provinces and Indonesia are indexed to 100 in 2002.

Source: Statistics Indonesia, Indonesia (<http://www.bps.go.id>).

The relatively healthy economic growth in Papua has attracted a large influx of non-Papua citizens over the past decade or so, which has contributed significantly to Papua's high and rising population growth rates. During 2000–10, the annual growth rate of the non-Papua-born population was approximately 4.8% for recent migrants and 6.7% for lifetime migrants (Table 3).

Table 3. Population Dynamics of Papua, 1980-2010

	Growth rate (% p.a.)			Share of total, 2010 (%)	Population (thousand)
	1980-90	1990-2000	2000-10		
Total	3.5	3.0	4.9	100.0	3,594
Lifetime migrant	10.6	3.1	6.7	19.1	686
Recent migrant	8.2	0.2	4.8	3.4	120
Non-migrant	2.3	3.1	4.5	77.6	2,787

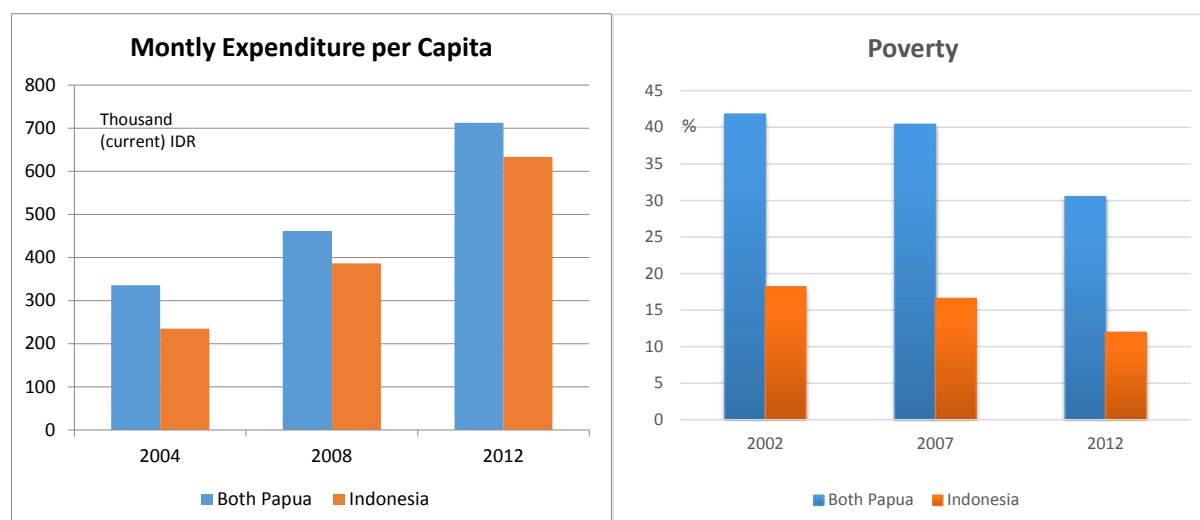
Note: Lifetime migrants are those who currently live in a province that is different from the province of birth. Recent migrants are migrants aged five years or over who resided in a different province from their province of residence five years previously. For purposes of comparison, people who were born in West Papua but now live in Papua province, and vice versa, are categorized as non-migrants.

Source: Resosudarmo, Mollet, Raya and Kaiwai (2014).

Observing the level of poverty, i.e. percentage of poor people, in Papua, it can be seen it fell from approximately 41.8% in 2004 to 30.5% in 2012, while the level for the whole nation went from approximately 18.2% in 2004 to approximately 12% in 2012. Poverty reduced by as much as 11.3% in Papua as opposed to 6.2% on a national level during the period 2004-2012. Looking at the ratio between the level of poverty in Papua and the national level, poverty in Papua was approximately 2.3 times that of the national level in 2004 and 2.5 in 2012. Though the proportion did not change much, one could conclude that Papua has been able to reduce its poverty rather well; it has more or less kept up with the rate of reduction at the national level. And on average, household welfare has improved faster than the national average.

The average monthly household expenditure per capita, as a proxy of household income per capita, indicates that an average household in Papua has been better off than the average household in Indonesia (Figure 9). However, inflation in Papua has generally been higher than the rest of the country.

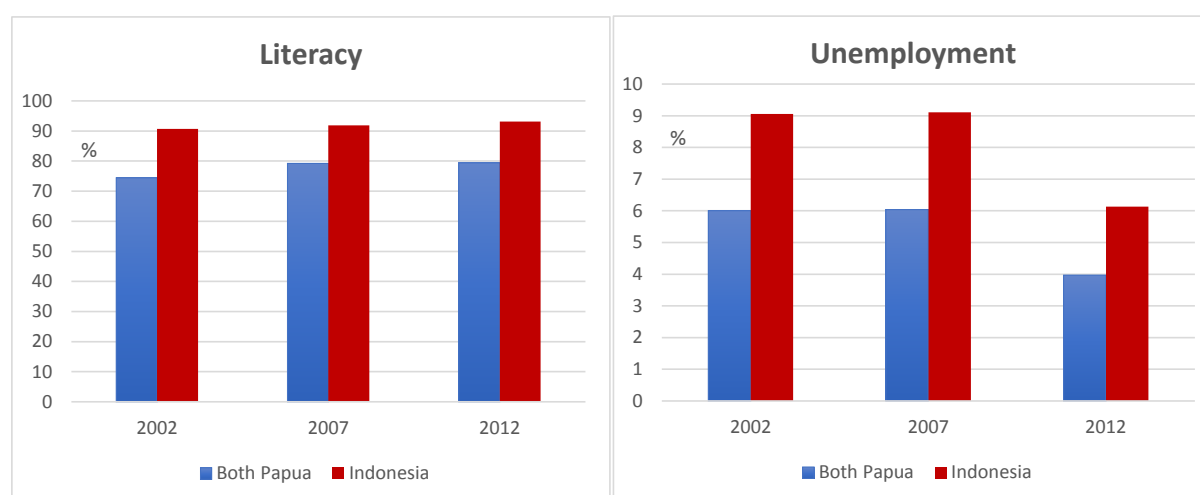
Figure 9. Average Monthly Household Expenditure per Capita and Proportion of Poor People



Source: Statistics Indonesia, Indonesia (<http://www.bps.go.id>).

The level of unemployment in Papua appears to be low, but this is debatable as the proportion of informal workers in Papua is most likely larger than in many parts of Indonesia (Figure 10). It is difficult to draw a conclusion from this number. A worrying indicator is the level of literacy, as proxy of education. The gap between the national level and Papua's has not getting smaller since 2007. Given that the proportion of migrants has been increasing in urban areas and most of them are literate, the slow progress in the literacy rate seems to be occurring in rural areas of Papua.

Figure 10. Literacy and Unemployment Rates

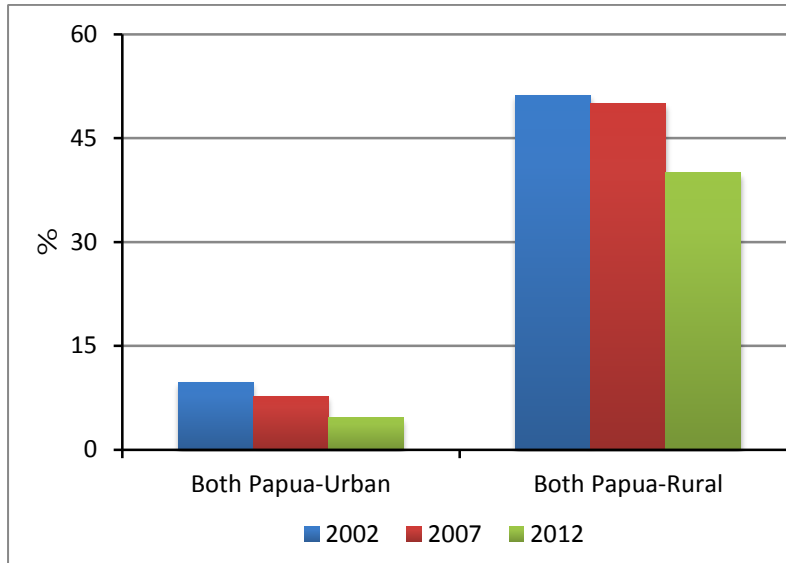


Note: Literacy rate is among the population aged 15 years and over.

Source: Statistics Indonesia, Indonesia (<http://www.bps.go.id>).

Observing poverty in urban and rural areas of Papua, it can be seen that the level of poverty in rural areas, though it has been declining, has been relatively very high (Figure 11). As a comparison, the level of poverty in rural areas at the national level was 21.1% in 2002 and it was reduced to 15.1% in 2012, while in Papua it was still 40% in 2012. On the other hand, the poverty level in urban Papua has been much lower than the national level: 4.6% for Papua and 8.8% for Indonesia in 2012.

Figure 11. Proportion of Poor People in Urban and Rural Areas of Papua



Source: Statistics Indonesia, Indonesia (<http://www.bps.go.id>).

Hence it is reasonable to conclude that various attempts to develop Papua have benefited the urban population more than the rural population. Since 2008, the government of Papua has distributed approximately IDR100 million (USD10,000) to each village annually to boost rural development. However, the outcomes are hardly visible.

5. Discussion

The various approaches to resolve problems in southern Thailand, the ARMM region in the Philippines and the Papua region in Indonesia can be categorized as first, providing additional special development funding, second, setting up autonomous regions or special autonomy regions, and third, introducing affirmative action policies. The Thai government has been providing additional special development funding and it has established several affirmative policies such as Islamic banking and there are plans to establish a Zakat fund to support the poor in these provinces. However, the Thai government has not been willing to grant them autonomous authority.

The Philippines has had an autonomous region in the southwest part of Mindanao for a long time. However, affirmative action policies and the provision of special development funding to develop the Moro people have been limited. The Indonesian government, on the other hand, has provided a relatively large special annual fund to develop Papua. Despite the debate over the division of Papua into two separate provinces, this division has increased fiscal transfers to the region and it involves more local people in the governing process. Moreover, Indonesia has granted Papua special autonomy authority and is allowing affirmative policies to be implemented there (Table 4). In this respect, at present, Indonesia is the most progressive of these three countries in solving the issue of lagging regions.

Table 4. Government Approach in Lagging Regions

	Additional Special Development Fund	Creating Autonomous Region	Allowing Affirmative Policies
Thailand	Yes	No	Some
Philippines	Some	Yes	Some
Indonesia	Yes	Yes	Some

The effects of these various approaches are not yet clear.. In the case of the Philippines, the creation of an autonomous region has been the dominant policy to cater to the unique needs of the Bangsamoro. Nevertheless, weak local government, permanent conflict, and low political will to allocate the fiscal budget to the region may undermine economic development and poverty reduction in the ARMM. In the words of President Benigno Aquino III, “the ARMM is a failed experiment”.

In the case of the three provinces in Thailand, where the dominant policy is mainly to provide additional special development funding, development in the provinces almost matches that of the rest of the nation. The main reason for the shortfall could be that, at least so far, this policy has not helped to reduce the frequency of conflicts. In the case of Papua, where both setting up special development funding and granting regional autonomy have been the dominant policies, the economy of Papua in general has been able to keep up with the rest of the nation. However, the case of Papua also shows appropriate affirmative policies are needed. This is not as much between Papuans and non-Papuans, although this is arguably still needed, as affirmative policies to accelerate development in rural areas where development has seriously lagged. Papua has conducted this rural development policy since 2008 and the outcomes might take some time to have effects. But, if implementation is appropriate, they should eventually occur. However, the case of Papua is also a reminder

that providing special funding, regional autonomy, and an affirmative policy for the poor still does not guarantee the elimination of separatist movements. The latter objective will probably take much longer to achieve and may require additional initiatives. The latter could involve resolving the problem of human rights, the acknowledgement of local cultural laws and other factors.

6. Final Remarks

In the past four decades or so, Southeast Asia has been one of the fastest growing regions in the world. However, not only have levels of development varied across these countries, but also some regions within them lag behind alarmingly compared to the rest of their country. Examples of these regions are the three Southern border provinces in Thailand, the ARMM region in the Philippines and the Papua region in Indonesia. Furthermore, these regions share other similar characteristics: their levels of development have lagged and they are areas of separatist conflict.

It can be concluded from the experiences of Thailand with the three provinces, the Philippines with the ARMM region and Indonesia with Papua, that providing a large amount of development funding and granting autonomous authority for these lagging regions is most likely required to enable these regions keep up with the development of other areas in their countries. Appropriate affirmative action policies are then needed to help solve the more detailed problems, such as urban-rural development and the gaps between the local and immigrant communities.

However, in the case of Papua, where the Indonesian government has practically done all it can in relation to providing special development funding, granting regional autonomy and designing numerous affirmative policies show that, although these policies may reduce physical conflicts, they are not enough to eliminate separatist movements. More policies seem to be required. These could include policies related to human rights violations and the acknowledgement of local cultural laws. More research is certainly needed to resolve these issues.

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