Kalimantan in the firing line: impacts of the global economic crisis

Lesley Potter, Human Geography ANU
OUTLINE OF PRESENTATION

- Indonesia and the GEC: commodity prices and exports vs household consumption.
- Kalimantan’s export crops
- Oil palm and rubber in Kalimantan, 2008-9
- New unemployment and under-employment, both urban and rural
- ‘Old’ and ‘new’ poverty: Malinau vs Landak
- Government programs to mitigate crisis impacts
- Is the crisis now over?
- Conclusion
Indonesia and the global economic crisis: commodity prices and exports vs household consumption
• Although Indonesia’s economy was doing well early in 2008, spurred on by high commodity prices, it began to be affected by the World Economic Crisis in the third quarter of the year. However, GDP growth did not experience the sharp downturn of most Asian countries.

Source: Danareksa Research Institute: Yearly Outlook, July 2009
Observers cited Indonesia’s large population and local consumption as a reason for its being partly shielded from overseas events. However, the World Bank in a Policy Note classified the country as among those likely to experience ‘high exposure’, with both decelerating growth and increasing poverty.
High commodity prices increased export earnings and investment in 2008, but those prices had dropped drastically by the 4th quarter (not shown on graph). Government expenditure increased, perhaps in preparation for the elections.

(Source Danareksa Research Institute: Yearly Outlook Jan 2009)
Growth decelerated in the 4th quarter of 2008, when exports and manufacturing took a hit from the global recession. Imports also fell.

Source: World Bank 2009

Graph to March 2009
Kalimantan’s export crops
Historically, rubber became an important export crop in much of Kalimantan (especially South and West Kal.) by the 1920s.

Although there are a few plantations, the industry has been largely dominated by smallholders.

Rubber proved a flexible component of traditional systems, so was able to spread into remote locations.

Oil palm was introduced from Sumatra in the late 1970s, but its main growth began in the 1990s.

Because of the need for rapid processing of the fruit and the export orientation of the industry, oil palm plantations have tended to be located where road transport is available.
Though the Trans-Kalimantan Highway is incomplete, the ‘south link’ and parts of the ‘central link’ are critical to major oil palm areas.
The government has encouraged the spread of oil palm beyond its Sumatran base: the four provinces of Kalimantan now have 17% of production.
• Kalimantan experienced a boom in planting over the past decade (and much ‘hype’ over potential planting, which did not always materialise).

• It did achieve the country’s fastest rate of growth, but 45% of the existing area is immature. This applies more to East and Central Kalimantan than West.
In both Central and West Kalimantan, extensive areas remain outside the oil palm belt, though coastal peat swamps are coming under increasing pressure.
Percentage of sub-district land planted to oil palm, Central Kalimantan
The price ‘boom’ 2007- 8

- The high commodity prices led farmers to follow the market, often reducing their range of activities to monocultures of oil palm or rubber, or working as labourers in these industries.
  - From ‘sleeping land’ (i.e. swidden fallows) to rubber or oil palm smallholdings (less land in food crops)
  - From logging (legal or illegal) to rubber (West Kal) or oil palm labourers (C. Kal)
- Many plantation smallholders (plasma) paid off their debts to the estates. They also splurged on consumer goods and incurred new debts.
- The large estates were highly export-oriented, with the result that local cooking oil prices soared as supplies became scarce.
- Fertiliser shortages were felt by small farmers, as large estates expanded their production and commandeered supplies.
Oil palm and rubber in Kalimantan, 2008-9
• By November 2008 the world economic crisis produced a rapid reversal. The export price of Crude Palm Oil (CPO) dropped from Rp8,210/kg (July) to Rp3,581 (Nov).

• A temporary imbalance occurred in October between the export price (Rp 5,211) and those set monthly by the provinces for farmers’ palm fruit (FFB) (e.g. Rp1,064/kg for fruit from 10 year old trees in West Kal), as 5 kg of fruit was needed to make 1 kg of CPO.

• Some estates refused to accept farmers’ fruit, especially from independent growers, while those still linked to the estates (‘plasma’) found that factory production levels had been halved.
Trucks queue to deliver farmers’ palm oil fruit to the government mill PTPN XIII in Parindu (West Kalimantan). (Photo Piers Gillespie)
Smallholders react to the palm oil price drop

- In East Kal, where many trees were younger and less productive, fruit prices had dropped to Rp500/kg and nobody could afford to use fertilizer (selling at Rp8,000 per kg). Although some fertilizer was subsidized by the government, accessing supplies was difficult.

- In Parindu (West Kal) many had debts to their co-operative or agri-bank for purchases of motor cycles and other goods in the ‘glory days’. Others still had debts to their estate, which cut their income by 30%.

- In Pangkalan Lada (Central Kal) smallholders said bitterly that they needed the support of the estate sector but their income was below production cost.
Impact of the drop in rubber prices

- As the price declined from Rp12,000 to Rp3,000/kg, the government decided to cut production, suggesting that farmers tap their trees twice rather than three times per week, which reduced incomes still further.

- Farmers in the (remote) eastern districts of West Kal were said to rely on ‘rubber, rubber and rubber’. They were described as ‘sinking away’, and affected psychologically. Villagers were reported to be ‘struck dumb’ with the impact. ‘The crisis has shaken the foundations of people’s lives’ (Borneo Tribune, 3.1.09).

- It was the rapidity and size of the price decline that farmers found most shocking: they were used to fluctuations in rubber prices of 5-10%, but not 75%!

- Officials recommended a return to small-scale mixed farming, but where was the food crop land?

- Even those with rice swiddens were reported to be buying food: holdings were very small and yields low because of lack of fertilizer and rat problems.
• A few oil palm smallholders had been able to retain enough of their land to practise mixed farming. On Malaysian-owned estate PT SIA in Parindu (W. Kal), many farmers had managed to avoid providing the company with the required 7.5ha per family.

• On other plantations the company’s ‘core’ took up 80% of the land, leaving only 20% for smallholders.
Oil palm with village land in background, Sanggau district, West Kalimantan
Many rubber trees were old and unproductive, with government plans for ‘revitalisation’ of the industry proceeding only slowly. Current plans covered only 55,000ha for the whole country in 2009, while in West Kal alone, more than 500,000ha of smallholder rubber was grown. Some farmers attempted to use improved clones, but these were expensive and not always available.
New unemployment and under-employment, both urban and rural
Kalimantan’s recent economic growth by sector
(2000 prices, % year on year)

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Source: Resosudarmo & Yusuf, 2009 (in press)
• The low rates of growth experienced by Kalimantan in every sector except services between the fourth quarter of 2008 and the second quarter of 2009 (rates which were the worst in the country), did not bode well for the maintenance of employment in agriculture and manufacturing.

• By December 2008, there were reports of worker dismissals from oil palm and rubber processing plants, timber and plywood factories. There were reductions in the plantation labour force as expansion was postponed.

• Some workers were told to go home and wait until conditions improved, meanwhile being paid a small retainer. This strategy saved the estates or factories providing severance pay for sacked workers. In other cases workers were not dismissed, but asked to work shorter hours, thus becoming under-employed.

• Although migrants laid off from jobs overseas were being forced to return home (an estimated 100,000 from electronics industries in Malaysia), this aspect did not have a serious impact on Kalimantan. Most of these largely female migrants were from Java or Sumatra.
- Workers in industries assessed as especially exposed included much of Sumatra and West and Central Kal, the chief palm oil and rubber producers (World Bank, 2009).

Sources: BPS and World Bank
• However, in East Kal a major problem concerned the wood industries, clustered around Samarinda city. Plywood exports dropped more than 50% from Jan.2008 to Jan.2009 and only 8 out of 25 factories survived, with more than 24,000 workers laid off. ‘Orders dropped, prices dropped and raw materials were hard to find…’

• In West Kal, the 13 rubber factories (mainly in Pontianak) were having trouble obtaining raw materials, as many farmers stopped tapping when the price dropped. Again several factories closed and their workers became unemployed.

• While large drops in factory employment were mainly urban, declines in rural incomes affected many small services.
“As prices [of rubber] have fallen, families...have been forced to economise. As well as eating less nutritious food... they are cutting back on... medical advice. And as rubber-dependent families rein in their spending, market stall-holders, petty traders, motorbike taxi drivers and café owners are all seeing their incomes decline too”. (DFID report, Tumbang Malahoi village, Central Kalimantan, 18/5/09)

Many rubber growers turned to small-scale mining, especially gold mining in the rivers of Central and West Kalimantan. This activity has caused serious environmental damage and mercury pollution of the streams, but is seen as a last resort by many cash-strapped farmers, some of whom had previously worked in timber, but had seen that industry decline.
‘Old’ and ‘new’ poverty

He identified two kinds of poverty:

- “Old” poverty, perceived to stem largely from remoteness, dependence on traditional technology and lack of market access;
- “New” poverty, brought about as a result of the development process and the direct engagement of people with the market.

To what extent are these ideas relevant to Kalimantan’s experience during the Global Crisis?
• District level data for 2007 (BPS 2008, before the crisis) reveal moderate levels of poverty in parts of West and East Kalimantan, higher in rural areas than in the cities.

• There is a clear correlation between more remote districts, a high percentage of people employed in agriculture and high poverty levels, e.g. the thinly peopled Malinau district in East Kal: 23.6% poor (highest in the province), with 92.4% of the 55,000 population employed in agriculture.

• Malinau has large areas of primary forest and national park. A ‘conservation district’ with no oil palm and little rubber, it would appear to qualify as experiencing “old poverty”, and not be much affected by the global crisis.

• Yet Malinau’s people are urgently seeking ‘development’ and ignoring any likely downsides of market exposure.
• Malinau has a long and largely mountainous border with Sarawak, the border region being difficult to access from the district centre. In November 2008 people in 3 sub-districts were threatening to move to Malaysia unless transport was improved. Both transport costs and basic goods were considered far too expensive.

• By January 2009 there was some discussion of the global crisis, with acknowledgment that new poverty could emerge with increased unemployment. While carbon trading and eco-tourism were seen as possibilities for the future, in a few areas the forest status was changed so more land could be planted with food or estate crops.

• Meanwhile, three oil palm companies were awaiting approval to clear forest...
Landak, the poorest district in West Kalimantan in 2007 (24.95% poverty) had 87.4% involvement in agriculture. Its population of more than 350,000 is within reasonable distance of the capital, Pontianak. Landak was one of the earliest districts to plant oil palm, much of which is now old and unproductive, with some newly replanted. It has W.Kal’s second largest smallholder rubber area.

This district was hard hit by the slump in commodity prices. Prices as low as Rp300-350/kg were being offered some farmers for young oil palm fruit in November 2008, from a high point of Rp1,200 just a few months earlier.

Cuts in the labour force of both oil palm and rubber holdings were taking place.

Landak, highly dependent on export commodities, would appear an example of market-induced “new” poverty, superimposed on an already rather stressed land base.
However...government intervention has reduced poverty levels.
Before the crisis, the Yudhoyono government already had in place several anti-poverty programs, which provided cash grants to vulnerable people (BLT) and small loans of rotating credit or equipment, such as fishing gear (KUR).

The cash grants program is credited with minor reductions in poverty between 2007 and 2008, and the reductions appear to be continuing.

Recent figures from BPS show consistent declines in poverty across all Kalimantan provinces to March 2009.

Health insurance for poorer households (Jamkesmas), and scholarships for poor students have also helped. In addition, the community block grants programs (PNPM), when focussed on improving rural infrastructure, can reduce unemployment.

The President’s stimulus package, aimed largely at protecting the business sector through tax cuts, included low cost cooking oil.

Resosudarmo and Yusuf (2009 in press) suggest that election campaign spending has also assisted in cutting poverty levels.
• Is the crisis over in Kalimantan?
• By July 2009, the price of palm oil appeared to have stabilised around USD 600/ton. Although this was far below the level reached during the ‘bubble’, it was sufficient for normal production.

• Prices for farmers’ fruit in Central Kalimantan had been restored to Rp1,000 for 10-year old fruit as early as May, to then plateau for the following five months.

• Further proof of recovery was reached when plantation clearing was resumed in August, with the usual complaints of burning in both West and Central Kalimantan.

• Although monthly export figures remained well below those of 2008, they improved each month from June 2009.

• The one commodity still lagging was rubber, with incomes remaining low in the more remote districts and many farmers turning in desperation to illegal mining.

• Indonesia’s rubber growers are directly affected by tyre sales in the US. Prices finally began to pick up in September–October.
Conclusion
‘Surprise, surprise’ is the title of the Economist’s most recent analysis of Indonesia’s economic performance during the global crisis, from which the country seems to be emerging well, according to macro-economic criteria.

This study has briefly examined the particular case of Kalimantan, where greater dependence on ‘boom’ crops and declines in timber have led to increased unemployment and social distress.

‘Old’ and ‘new’ poverty may be recognised, though the levels have moderated, thanks largely to government intervention.

While the impact of the global economic crisis was severe in parts of Kalimantan for about 9 months, the oil palm areas have largely recovered, but much of the interior rubber-growing region has been suffering from a depressed economy until very recently.

It is important that the trajectory of recovery be monitored carefully in Kalimantan, as rates of growth have been very low and continuing pockets of poverty and unemployment will need to be addressed.
THANK YOU