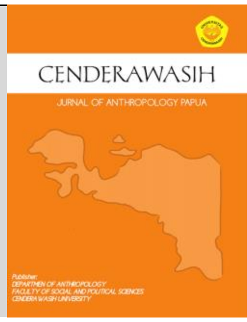
CENDERAWASIH:
Jurnal Antropologi Papua
Volume V Issue 2, Desember 2024
P-ISSN: 2774-5538, E-ISSN: 2774-552X



Cross-Border Inequality between Indonesian Papua and Papua New Guinea: A Developmental State Perspective

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INFO ARTIKEL

Keywords:
Indonesia, Papua New Guinea, Inequality, Cross-Border Economies, Development, Developmental State

Cara Sitasi:
Siborutorop, J. (2024). Cross-Border Inequality between Indonesian Papua and Papua New Guinea: A Developmental State Perspective. Cenderawasih: Jurnal Antropologi Papua. 5(2): 81 – 90 .

DOI:
http://dx.doi.org/10.31947/jap.v5i2.3973

ABSTRACT

This study examines the causes of cross-border inequality between border communities in Papua and South Papua provinces Indonesia and Sandaun and Western provinces of Papua New Guinea (PNG) through the lens of development theory and the concept of the developmental state. Using a qualitative-descriptive methodology, this study posits that the inequality existing between Indonesian and Papua New Guinean border communities is caused by the large investment and state capacity committed by the Indonesian government in developing its border communities compared to the Papua New Guinean government's lack of economic investment and state capacity in developing its peripheral border regions. Furthermore, this study suggests that this existing inequality can be solved by encouraging state capacity building and investment in border communities in partnership with the private sector in the Papua New Guinean side of the border.

1. Introduction

Economic inequality has always been a major factor which shapes international relations, particularly in the developing world. One major location where economic inequality is the most visible is in land borders existing between two countries. This study will examine the causes of significant economic inequality existing between communities located in the border regions of Indonesian Papua and Papua New Guinea

(PNG), which together share the island of New Guinea. This study posits that cross-border inequality is caused by the lack of certain governments' (in this case, Papua New Guinea) economic investment and state capacity in developing its peripheral border regions, compared to larger investments and greater state capacity directed by other governments (in this case, Indonesia) to its border regions. Furthermore, this study also recommends that this chronic inequality can be solved by encouraging state capacity building in Papua New Guinea and encouraging economic investment in border communities.

To accomplish this, this study will first begin by examining the theoretical underpinnings of inequality, particularly through the lens of development theory and the concept of the developmental state. Secondly, this study will compare the historical and current situations of the Indonesia-Papua New Guinea border, particularly the divergence between Indonesian and Papua New Guinean government policies which significantly contributed to the development of communities existing on the Indonesian side of the border further beyond the border area development within the Papua New Guinean side of the border. Thirdly, this study will expound on the causes of the persistent inequality present in the Indonesia-Papua New Guinea border through this lens of governmental policy differences. Finally, this study will conclude by examining state capacity building and investment as solutions to the cross-border inequality between Indonesia and Papua New Guinea.

Inequality between nations can be understood through the lens of development (modernization) theory, pioneered by economist W. W. Rostow in his 1960 work The Stages of Economic Growth (Willis, 2023: 33). Rostow identified five stages of linear economic growth that societies (particularly newly independent Global South countries) must take to reach economic prosperity: traditional, preconditions for take-off, take-off, drive to maturity, and age of high mass consumption (Rostow, 1990). In this model, the "traditional" stage represents a pre-industrial, technologically less advanced agrarian society, while the "age of high mass consumption" stage represents an industrial, technologically advanced, materially prosperous society which provides for its citizens through state mechanisms such as welfare programs (Willis, 2023: 33). Rostow's theory posits that development is possible for all countries if they take the proper linear, developmental path towards modernization (ibid: 34).

In this perspective, development is therefore heavily dependent on a state's policies in encouraging economic growth for its citizens through the diversification of the national economy from a traditional, pre-industrial economy towards a modern manufacturing-based economy. Through this diversification and technological advancement of national economies, poor states can eventually become prosperous. The role of the state is therefore essential to encourage its citizens to save funds in banking systems (as widespread use of banks and similar financial services is one of the primary conditions for take-off), invest in economic projects, and further develop technology available in the state's territory (ibid: 34).

Therefore, inequality between nations, particularly between different nations of the Global South, can be understood as the result of differences in policy measures taken by those countries' governments. If a country implements rational economic policies (e.g., developing its manufacturing sector, improving the quality of state institutions, and encouraging savings and investments among its population), then its society will begin to progress towards economic prosperity. On the other hand, a country which does not implement these policies will stay underdeveloped and comparatively poor.

The linear Rostow model's emphasis on the state as the primary director and pioneer of a country's national development is further reinforced in the concept of the "developmental state". The term itself, first used to describe the economic policies of successful developing East Asian states, can be defined as "a government with sufficient organization and power to achieve its development goals" (Chang, 1999). While experts often disagree at what a developmental state entails, there are at least four main characteristics possessed by developmental states: a capable, autonomous, and embedded bureaucracy; a political leadership oriented towards development; a close and mutually beneficial relationship between pilot state agencies and key industrial capitalists; and successful policy interventions which promote growth (Routley, 2012: 8).

Through the lens of the developmental state, inequality between developing countries can also be understood as the result of the adoption or non-adoption of beneficial policies by the state. If a state encourages the development of a business-friendly, competitive environment supported by a capable bureaucracy with a clear developmental vision, then its society will progress towards economic development. On the other hand, a weak state which is plagued by short-sighted political infighting, detrimental or contradictory regulations, and poor government control over its own territory will find itself in a harder path towards national economic development. Over time, the accumulated gap existing between countries (as measured in GDP per capita, HDI, and other indicators of development) resulting from these policy differences will create a significant gap in the economic prosperity of various countries which historically started from approximately the same point (e.g., newly independent countries suffering from war and underdevelopment).

2. Methodology

This study's main methodological approach is a qualitative-descriptive one. In this method, the research topic's description narrative is derived from scholarly publications, government regulations, and mass media publications that pertains to and discuss the conditions on the Indonesia-Papua New Guinea border, both in the past and in the present. A textual analysis of press coverage is also used to analyse developments that occurred in recent years pertaining to the border area between Indonesia and Papua New Guinea. Giving a thorough explanation of current situations in a language that is simple for readers to understand is the aim of qualitative-descriptive research (Sullivan-Bolyai, Bova, and Harper, 2005).

3. Results and Discussion

3.1. The Indonesia-Papua New Guinea Border

One region where the instrumental role of the developmental state is proven is in the border between Indonesia and Papua New Guinea. The border stretches for 820 kilometres along the 141st meridian east (with the exception of border adjustments along the Fly River), cutting through the traditional lands of seven Indigenous Papuan tribes (May, 1987: 44, Usman and Sairin, 2017: 174). Due to this demarcation, many Papuan tribes, such as the Marind-Anim and Skouw tribes, found themselves split from their farms and families due to the border (May, 1987: 44-45). In spite of these national differences, however, these already-culturally very similar "cross-border tribes" continued to practice intermarriage and exchanged culture over the border line, thereby creating a unique transnational identity (Usman and Sairin 2017: 175).

Administratively, the Indonesia-Papua New Guinea border separates the provinces of Papua, Highland Papua, and South Papua in Indonesia with Sandaun and Western provinces in Papua New Guinea. However, due to the inaccessibility of the central Papuan highlands, virtually all border traffic occur in Jayapura and Keerom (Papua Province) right opposite to Vanimo (Sandaun Province, Papua New Guinea) and Merauke (South Papua Province) right opposite to Weam (Western Province, Papua New Guinea).

While residents on both sides of the border share cultural values, languages, and ethnicities, their economic status is significantly unequal. Indonesian border municipalities have vastly higher HDI, GDP per capita, and living standards than their counterparts on the Papua New Guinean side. This is especially true in comparing the Indonesian border city of Jayapura (with a HDI of 0.801) and the Papua New Guinean border city of Vanimo (with a HDI of 0.532). This begs the question: why does this significant inequality in these cross-border areas' quality of life exists?

Fig 3.1.1. HDI Comparison between Indonesian and Papua New Guinea border provinces

Indonesia	*HDI*	*HDI*	*Papua New Guinea*
Jayapura	*0.814*	*0.532*	Vanimo
Merauke	*0.722*	*0.565*	Daru

Source: Badan Pusat Statistik (2024), Global Data Lab (2021)

3.2. What Caused Papua New Guinea's Border Communities to Underdevelop?

In determining the causes of inequality between the Indonesian and Papua New Guinean sides of the border, the role of the state and its policies in empowering and developing local communities cannot be understated. Up to the mid-2010s, the concern of both governments (Indonesia and Papua New Guinea) *vis-à-vis* the border was one of security. The border was a contentious issue during the intense years of the Papuan conflict, when a pro-independence insurgency in West Papua waged by the Free Papua Movement (OPM) on the Indonesian side of the border was met with heavy-handed response from the Indonesian government, causing refugees from Indonesian Papua to stream to the Papua New Guinean side of the border to seek safety and OPM insurgents to use the border to conduct operations against Indonesian forces (May, 1987: 44-45). Indeed, this pattern of securitisation of the Indonesia-Papua New Guinea border areas continued until the mid-2010s, with border authorities on both sides often closing the border for whole months due to security concerns (Usman and Sairin, 2017: 176). Due to the usage of this paradigm on border management which is heavily focused on defence and security concerns instead of economic empowerment, communities on both sides of the border were equally economically underdeveloped and the little economic activity taking place within the border region was consequently dominated by outsiders (*ibid*: 176).

President Joko Widodo's leadership term in Indonesia (2014-2024), however, significantly changed the Indonesian state's paradigm *vis-à-vis* the border. Security-oriented policies which tend to inadvertently clamp down on economic activity and freedom of movement within the border areas were replaced by a development-based paradigm which encouraged economic activity to develop in communities along the Indonesian side of the border (Siswanto, 2018: 3). The Indonesian government heavily invested in constructing border posts and markets, as well as simplifying distribution of goods and financial services in the border regions. One concrete policy which was successfully enacted by the Indonesian government to encourage economic growth and empowerment within border communities is by lowering fuel prices in Papua, previously significantly more expensive than in other regions in Indonesia, to a relatively same level by law (*BBM satu harga*). This pattern of border area development which relies on good governance and a radically new paradigm differs significantly from the lack of Papua New Guinean government investment in its border regions which made them relatively inaccessible even to this day. Due to this policy divergences, prices of goods on the Indonesian side of the border has become significantly cheaper than the goods on the Papua New Guinean side, thereby encouraging more economic activity to develop on the Indonesian side compared to the Papua New Guinean side (Korwa and Rumabar, 2017).

Along the border, there is a significant contrast between Papua New Guinea-operated markets, which according to observers are relatively smaller and only sell lower-value agricultural products (such as betel nuts), and Indonesia-operated markets, which have a greater range of high-value products, such as electronics and automotive spare parts (Tambunan and Lantang, 2022: 137, Siswanto, 2018: 9). Furthermore, the prices in the Indonesian markets are significantly cheaper, with observations by Tambunan and Lantang (2022) revealing that the selling prices of goods on the Wutung border market (on the Papua New Guinea side of the border) being twice the prices of goods on the Indonesian side of the border (Tambunan and Lantang, 2022: 137). This contrast in levels of economic development, caused by the Papua New Guinean government's relative inability to ensure cheap distribution of products to its citizens living along the border, have incentivised Papua New Guinean residents to buy basic necessities in the Indonesian side, where the Indonesian government has made easy distribution and border connectivity one if its primary agendas since at least 2014 as proven through the rolling out of infrastructure projects such as building roads and bridges across the country, including in Papua (Liputan6, 2019). Furthermore, the Indonesian government has constructed many crucial airports and seaports all over the border region, including in the border municipalities of Merauke (Mopah International Airport, with its new extension inaugurated in 2021) and Asmat (Ewer Airport, with a major upgrade inaugurated in 2023), further increasing mobility and decreasing distribution costs from other regions in Indonesia (such as the industrial heartland in Java) to its peripheral regions along the border with Papua New Guinea (Indonesian Ministry of Transportation, 2021, Indonesian Secretariat of State, 2023).

Also as a consequence of these diverging government policies, the Indonesian border markets were flooded by customers coming from Papua New Guinea seeking lower prices, with the Skouw border market in Jayapura (Indonesia) alone registering a daily money circulation of IDR 3 billion, most of which going to local indigenous Papuan (*Orang Asli Papua,* OAP) families who were encouraged by the Indonesian government to open up shop there (Tambunan and Lantang, 2022: 137). In contrast, while many Indonesian tourists regularly visit the border area, few actually went over to the Papua New Guinean side, instead preferring to shop in the more variative, cheaper-priced Indonesian markets (Korwa and Rumabar, 2017). As a result of this unequal economic exchange, Indonesian economic and cultural power penetrates the border deep into Papua New Guinea, with some studies finding that the Indonesian Rupiah is widely used in the towns of Wariaber, Weam, and even in the provincial capital of Daru, 300 kilometres away from the border (Tambunan and Lantang, 2022: 137). On the other hand, the Papua New Guinean Kina is not accepted anywhere outside of the border markets. One implication of this inter-currency inequality is the development of the banking sector on the Indonesian side, where local Papuan entrepreneurs can easily take out business loans and deposit their business profits in various banks operating along the border. This *status quo* is opposed to the economic realities of the Papua New Guinean side of the border, which experiences far harder access to financial services and has relatively less economic connectivity than the Indonesian side (*ibid*: 137).

Another consequence of Indonesia's dominance in these border exchanges is the usage of the Indonesian language as the *lingua franca* along the border, which are supported by the empowerment of Indigenous Papuans (particularly women) as economic actors along the border (RNZ, 2017). Indonesian government investment in its border regions (and, by the virtue of the border markets' lasting impact on Papua New Guinean border communities, even beyond the border) has also promoted the use of the Indonesian language to school students and adults in the Papua New Guinean provincial capital of Vanimo, making Papua New Guinean youths and students very interested in visiting Indonesia comparatively more than Indonesian youths' interest in visiting Papua New Guinea (Siswanto, 2018: 6).

It can be seen, therefore, that the main cause for the persistent inequality along the Indonesia-Papua New Guinea border is the Indonesian adoption of the "developmental state" mentality, one that was not adopted by the Papua New Guinean government. The Indonesian government, through far-sighted planning and usage of its regulatory powers to develop a radically different development-oriented paradigm instead of the previously dominant security-oriented paradigm, have invested in infrastructure, distribution, and promotion of financial services, which resulted in rapid economic development in its border regions and the improvement of the quality of life of its residents. On the other hand, the Papua New Guinean government has done relatively little to develop its border regions, and therefore quality of life and economic development in its border communities has developed at a slower pace than on the Indonesian side of the border.

3.3. Solutions to Cross-Border Inequality

There is no better solution to the cross-border inequality than to develop and enculturate a "developmental state" paradigm in the Papua New Guinean government's policymaking circles. Just as the rapid development of the Indonesian border regions was brought about by the clear development-oriented vision of President Joko Widodo's administration, the Papua New Guinean government needs to adopt a similar mentality *vis-à-vis* its high-potential but heretofore-underdeveloped border regions of Sandaun and Western provinces, which currently exist in a state of economic inequality with Indonesian border municipalities. The development-minded example of the Indonesian government should be followed, with certain localisations and adjustments, by the Papua New Guinean government in developing its border regions and communities. There are two main ways in which the Papua New Guinean government can enculturate this "developmental state" mentality: through the development of institutions and increasing of economic investment in the border regions.

The presence of strong institutions is important in economic development, including in peripheral regions such as borders (Acemoglu, Johnson, and Robinson, 2005). The Indonesian side of the border possesses strong institutions, both state (governmental) institutions such as immigration authorities and law enforcement agencies and private institutions such as easily-accessible banks (Tambunan and Lantang, 2022: 137). On the other hand, the Papua New Guinean side of the border has yet to possess strong institutions, particularly financial institutions such as easily-accessible banks. The Papua New Guinean government should encourage more banks and similar financial service providers to develop in the border region and cater to border residents, thereby incentivising the use of the Papua New Guinean Kina in border communities *vis-à-vis* the Indonesian Rupiah.

One sector which the Papua New Guinean government can utilise to develop its border economy is the banking sector. Currently, there are currently only four nationwide commercial banks in the whole country: Bank South Pacific (which accounts for 65% of national market share in loans in 2023), Kina Bank (22%), and two Australian-based multinational banks ANZ and Westpac, which together account for 13% of the market in 2023, down from an astounding 51% in 2006 (Biggs, 2007: 75). Furthermore, depositing funds in those banks is still not an easy task for an average Papua New Guinean, as term deposits have a minimum balance amount of PGK 5,000 (approximately equal to USD 1,300) in Kina Bank or even PGK 25,000 (approximately equal to USD 6,500) in Bank South Pacific, which constitutes a very high minimum amount compared to the average national monthly salary of PGK 4,120 a month. In contrast, the banking sector on the Indonesian side of the border is relatively more developed and diverse, with 98 banks existing nationwide in the country as of 2024, including the Papua Regional Development Bank (BPD Papua), a bank owned by the Papuan provincial government. This existence of a multitude of banks gave Indonesian border residents ample access to saving and credit services (Otoritas Jasa Keuangan, 2024). This number does not include smaller rural banks (*Bank Perkreditan Rakyat,* BPR), which are usually locally-owned and cater to the needs of specific local communities, with 1,402 of such banks existing nationwide and providing financial access to all Indonesians (Kontan, 2024). To better illustrate the contrast between the banking sector in Indonesia and Papua New Guinea, a comparison of key indicators between the Indonesian and Papua New Guinean banking sectors is shown below.

Fig 3.3.1. Comparison of Key Indicators in the Banking Sector (2022)

Indicator	Indonesia	Papua New Guinea
Credit union and financial cooperative branches per 1000 km^2	17.7	0.1
Credit union and financial cooperative branches per 100,000 adults	6.78	0.79

Source: Federal Reserve Bank of St. Louis (2023)

Furthermore, Indonesian banks have a much lower minimum term deposit thresholds, with minimum term deposit thresholds in rural banks (BPR) as low as IDR 100,000 (USD 6) and in national banks as low as IDR 1,000,000 (USD 60), both which can therefore be classified as micro-savings. As various previous research (e.g., Babajide,

2016) has proven that the widespread adoption of micro-savings in developing countries is instrumental in alleviating poverty, there is a pressing need for the Papua New Guinean government to widen access to its banking sector and encourage Papua New Guineans to save in smaller amounts in banks in order to allow greater investments to be made in its border regions. Furthermore, the Papua New Guinean government should encourage more new banks to open, particularly community-based and locally-owned rural banks following the Indonesian model and conduct business in the heretofore-isolated and financially disconnected border communities.

Another way for the Papua New Guinean government to solve inequality in its side of the border is to invest in developing border regions, both directly from government funds, through the private sector, and through foreign aid (a crucial resource which is comparatively less available in Indonesian Papua). The Papua New Guinean government should focus on developing roads, airports, and seaports, particularly in Western Province where transport connections are essentially non-existent.

4. Conclusions

Persistent inequality between the border of Indonesia and Papua New Guinea can be best described as an inequality between a government in action with a government in inaction. While the Indonesian government has successfully heavily invested in improving the quality of life in its border regions of Papua, the Papua New Guinean government has yet to do the same on the same intensity, which has over time widened the rift between Indonesian and Papua New Guinea border communities. The solution of this inequality is therefore one of serious action on the part of the Papua New Guinean government that can be taken through consistent government-directed investment in border communities, growing of government institutions catering to border residents, and encouraging the development private sector services and locally-led initiatives in the region.

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