

**Decentralization and Local Development in Indonesia:
A Case Study of Mining Transnational Corporation**

DOCTORAL DISSERTATION

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CHAPTER 1 INTRODUCTION

1.1 The Research Problem

In the few decades or so global minerals extraction has been transformed from a rather fragmented industry characterized by small-scale operations to one dominated by a relatively concentrated group of transnational corporations (TNCs) managing massive operations in remote areas of the developing world. Such large operations are bound to have considerable impacts on people living in the vicinity, the most affected of who are often poor, rural and indigenous. Decentralization of government has also become a global phenomenon in the last few years and almost all developing countries have attempted some kind of decentralization. This research attempts to discuss a TNC mining operation in the context of highly-decentralized Indonesia.

Indonesia; the archipelagic country with vast and various natural resources, is prospectively one of the richest countries in the world (Coutrier 2002). Spreading from Sabang in the northern part of Sumatra to Merauke in Papua (formerly known as Irian Jaya) natural resource deposits such as oil, gas, minerals, and geothermal resources, are found in abundance (Coutrier 2002; Wahyu 2002). The Dutch, Portuguese and English had searched, explored, and exploited these mineral sources of Indonesia during the

Colonial Period in the 18th Century up until the archipelago gained independence in August, 1945.

Directly after Independence, it was stated in the first verse of Article 33 of the 1945 National Constitution (UUD 1945) that natural resources are under the sovereignty of the state and that their utilization should be maximized in order to bring prosperity to the people of the Republic of Indonesia. This Article is the legal basis that allows any capable entity or institution in the country to explore, use, manage and utilize natural resources in order to bring the people's wealth to higher level as the ultimate goal (Kiroyan 2002a). Regarding the ultimate goal, it is highly expected that people's prosperity will be significantly increased through the exploitation of such resources. In short, significant results in economic and social welfare developments must be proven by implementing some indicators as assessment tools.

In addition, to give positive impact on the environment and community's development, environmental management must be considered and becomes a high priority in achieving the meaning of "development" itself. In this context, management of the environment is now being formulated as integrated activities and efforts in utilizing, arranging, preserving, supervising, controlling and evaluating (environmental audit), recovering (rehabilitation or re-vegetation) and developing living environments

(Kiroyan 2002a).

In modern times, even during the monetary crisis in the late 1990s, the mining sector as one area of natural resource exploitation continues to contribute to Indonesian domestic income a relatively consistent amount. This averaged at around 3 - 5 percent of total GDP in 1999 – 2005 (Purnomo 2005). The statistical data of Gross Domestic Income in 2002 showed that the mining sector alone had contributed Rp. 1.340 trillion (PricewaterhouseCoopers 2003). That was from the cash inflow. Furthermore, if we look at overall development in the local areas, in general mining sectors have contributed significantly in terms of development results to the local social welfare such as wealth, physical infrastructures such as roads, communication systems, water supplies, electricity and also some multiply effects like new development in local economic sectors such as local business activities, shops, markets, and so on (Kiroyan 2000a; Wahyu 2002). One significant positive factor is the opportunity of increased employment for local people. This is something which holds much promise for the future if giant mining companies would expand their operational area wider, a move which is also expected to involve multiplier effects and important consequences for regional development (LPEM UI 2005).

Besides the positive sides to mineral extraction operations, negative aspects also

occur and have become some of the most talked about issues in Indonesia today. The problem is also very complex because this issue is multidimensional and involves economic, social, environmental and political elements. This is indicated by the involvement of a wide array of different kinds of interest groups. An example of this complexity is the Freeport case in Timika, Irian Jaya. In 1995 riots exploded between the local people and the company's employees and security forces, representing one of the biggest social disturbances involving the mining industry in Indonesia. The case was connected to some of the highest and most powerful groups in Indonesia, such as Soeharto's family and clan, the Indonesian armed and security forces (including both the army and the police) and even U.S politicians (Leith 2003). Since the problem was first discovered and exposed by the media in 1995, Freeport has faced both national and international critics including allegations of environmental damage, human rights issues, money politics and other KKN-related issues. This case has also negatively impacted seriously on the image of the national mining industry in general, leading to a dramatic increase in radical anti-mining campaigns held by environmental NGOs (Leith 2003).

Era reformasi (the era of reformasi) was heralded when Soeharto finally stepped down from his position as President on May 21st 1998. Since this important event the situation in Indonesia has changed dramatically. Major components of *reformasi*

included the freeing of the press, lifting restrictions on the number of political parties allowed and a reduction of the military's political role. These changes led to calls for a restructuring of relations between Jakarta and the regions. These calls were particularly vocal in resource-rich yet impoverished areas and were answered with one of the biggest political changes in the history of the nation. The implementation of a decentralized system which devolves significant power and authority to the regions under the new national system coined 'regional autonomy' (Tim Redaksi Kompas 1999b). Ordinance No. 22/1999 on regional government (and its subsequent revision – Ordinance No. 32/2004) and Ordinance No. 25/1999 on the fiscal balance between the central and regional governments (which was also revised and replaced by Law No. 33/2004) were enacted officially in January 2001. The promulgation of these laws signified Indonesia's entrance into a new era in which substantial powers, responsibilities and financial capacities are delegated from the central government to regional authorities, mostly to the regency/municipal (*kabupaten/kota*) level. To a significant extent, these laws allow regional authorities to autonomously govern and manage their own respective finances, political and administrative institutions and natural resources (Brodjonegoro 2002; World Bank 2003; Ahmad & Hofman 2000)).

With a meaningful shift in authority in regards to the management and fiscal issues

surrounding natural resources, the decentralization policy would be expected to amount to significant changes in policy regarding the mining sector. Mining is a huge source of revenue and thus very important to the development of regions especially in decentralization era, as is the foreign investments in the sector. Some investors and business journals predicted that the decentralization and democratization of Indonesia would cause confusion, extra demands and a more difficult operating environment for multinational-backed mining ventures. As one author claimed ‘what concerns companies is the way the draft mining legislation weighs them down with additional social responsibilities’ (McBeth 2002). Also according to one senior mining executive: ‘in effect, they’re asking us to take the place of the government’ (McBeth 2002). Increased conflict and threat of violence directed at public and private resource extraction companies was also expected as one consequence of decentralization (Peluso 2007).

Other sources note that the political changes amount to a long-awaited victory and hold much hope for the future of people and communities whose lives are affected by mineral extraction operations (Legowo & Takahashi 2003). The decentralization policy was expected to empower many of these communities who believed that the historical circumstances under which mining ventures gained control of their land were not in

their favor, involved coercion and also that they were never properly compensated for their loss of land and livelihoods.

1.2 Research Questions

The research problem for this study, therefore, involves a need to present and clarify what has actually been the impact of decentralization on the mining sector in Indonesia.

This problem includes several dimensions:

- Mining sector policy and governance;
- The behavior of multinational-backed companies in regards to their contributions to communities and their development; and
- The condition of mining affected communities.

How these have changed along with the regime and decentralization is the main focus of this study. These will be explored through an in-depth case of one largest nickel-mining operation located in Sorowako, South Sulawesi.

In order to address this main question a number of supporting sub-questions have been formulated. These include:

1. With decentralization, how have the political, economic, and environmental policies changed in regards to the mining sector?

2. Are there changes evident in the mining sector itself? If so, what are they?
3. Have decentralization and the changes in the mining sector policy brought about a change in the multinationals' performance in terms of contribution to local development? In what way?
4. Have the changes translated into a change of condition (economic, social, environmental) for mining-affected communities?

The first and second of these sub-questions are addressed in Chapters 4 and 5 through a detailed and systematic description and analysis of the political conditions and impacts on the mining industry since independence in 1945 up to *reformasi* until 2005. Chapters 6 and 7 provide the answer to the third sub-question through and represent the first part of the case study, which focuses on the case corporation (PT INCO in Sorowako). The fourth and final sub-question is addressed through the second half of the case study which focuses on the local community actors and is outlined in Chapter 8.

1.3 Research Objectives

A number of research objectives were formulated in response to the research problem and in order to answer the research questions, both of which are outlined above. The research objectives have also served to provide guidance and direction to the study. Before detailing the objectives of the study it is useful to note that the main purpose of the research was to produce a single, in-depth case study of a multinational mining company operating in Indonesia.

Specific issues to be analyzed for this case included: the contribution of the company to the local communities affected by its operations; the local actor's condition as a result of these contributions; the personal or group factors that relate to the different local actors (regency government, regency parliament (DPRD), district government, and the community councils); the perceptions of these local actors towards the performance of INCO's current contribution; how the system of the company's community development contributions works in relation to the various local actors; the benchmarks for measuring the adequacy of INCO's contributions; whether or not there is evidence of a gap between the local perception and other benchmarks; and the factors that contribute to the appearance of different perceptions on the performance of INCO's current contribution (if any are evident).

The specific research objectives developed to support formation of the case were to:

- Conduct a comprehensive analysis of the actors' perceptions and expectations in regards to INCO's nickel mining operations and its impacts on economic development and socio-environmental aspects in the newly decentralized context;
- Map the actors concerning these issues at the local level;
- Investigate the rationale behind the establishment of community councils and to question whether inadequate representation at the regional level was the basis for this development;
- Assess the potential security issues that may present themselves in the future.

In regards to the logic of these objectives and the research questions listed above, it is a main preposition of this research that personal or group factors play a significant role in affecting the perception of the different local actors on the implementation of INCO contributions following the enactment of the decentralization policy in Indonesia.

1.4 Scope of the Research

This study does not intend to analyze the economics of mining, since this is already an academic discipline on its own. This study is also not an environmental paper that provides detail aspects of environmental risks and safeguards implemented. Instead, this

research focuses on the contributions and obligations of mining companies to the communities affected by their operations and their economic and environmental well-being in light of the prevailing socio-political situation.

The nature of this study is primary data research. The reason for this focus on primary data is the nature of this study that is multi-discipline and is aimed at uncovering the actual conditions in the field.

1.5 Significance of the Research

There have been various studies on mineral resources, including those focusing on the environmental aspects, economic aspects as well as the social impacts and political processes behind mining. Especially with regards to INCO's operation; the first book was written by Australian anthropologist, Kathryn Robinson in 1986 and the other one was by Indonesian well-known environmentalist figure, Arianto Sangaji in 2002. The studies are quite similar in nature in that both concentrated on the negative aspect of INCO's operation.

This study is significant for the quality of the data that is obtained through field visits and interview with the various stakeholders in mining industry. The findings of this study bring factual information on the changing of situation and condition of socio-

environment in mining operation area in light of changing socio-political situation at national level.

The findings of this study provide inputs for policy recommendation in minimizing the impacts of the changing the actors' perception in mining industries. There are indeed various NGO papers directed at this issue, however most of it has been questionable due to the strong bias towards anti-mining movements.

This study does not serve as a pro-mining paper, instead this study tries to take a neutral stand by looking at the actual demand from the stakeholders, and how the research object has fulfilled the obligations. The gap between the performance of the research object and the demand from the stakeholders serve as a useful policy input as well as in identifying possible inconsistencies in each stake holder's view that may arise due to the prevailing socio-political environment.

Last but not least, this study is local-oriented, with particular concentration on the area-specific characteristics in the local research area. Therefore, this study seeks to provide an update to the studies on the dynamics occurring in the mining sector, in particular with the interactions between the mining company and the local stakeholders in terms of the company's moral obligation.

1.6 Limitations of the Research

Time, field areas, political situation and financial constraints limited the focus of the research to INCO's operations in Sorowako, South Sulawesi. In actual fact, INCO also has another mining concession area in Bahodopi, Central Sulawesi. This area has not been looked at as in-depth for this study as was originally hoped due to the constraining factors listed above.

A rapidly changing political environment also presented difficulties and therefore constraints on the research. It is important to notice that during the fieldwork there were changing circumstance within the local authorities as the impact of regional autonomy system; where since May 2003 INCO's operational areas is no longer under the North Luwu Regency, but under the administration of the newly formed East Luwu Regency. With regard to this condition, therefore the primary sources are not fully from East Luwu, but some of them were from North Luwu.

To get the perception from the local executive (regency government), the interviews were conducted with senior staffs of East Luwu regency government (*Kabupaten*), while the perception of local legislative was held by interviewed with senior members of North Luwu parliament (DPRD II), not East Luwu parliament. There are two reasons for this matter; first, the members of North Luwu parliament have been dealing with

INCO longer than those from East Luwu. Second, when the fieldwork was conducting the structure of East Luwu parliament had not been settled yet. Because of this transition, the East Luwu regency regional budget also still recognize as part of the North Luwu regency regional budget (APBD 2003 – 2005).

When INCO for the first time started its operation in 1969, Sorowako was under the Luwu regency, but as the impact of the regional autonomy there are movements in establishing new provinces and regencies to separate from their old administration. This trend is also applied to Luwu regency. There are two times of local administration's changing by the establishment of two new regencies as follows:

- April 27th 1999: The establishment of North Luwu, separated from Luwu (Kompas, November 7th 2000).
- May 3rd 2003: The establishment of East Luwu, separated from North Luwu (Kompas, May 5th 2003).

1.7 Structure of the Paper

In the first part of this study, Chapter 1 has provided a brief explanation pertaining to the background of the study as well as its overall content. It includes a clarification of the main issues that are included in the research as well as provide justification as to

why the author has deemed this theme interesting enough to be written as an academic paper. It also includes the research questions that were employed as guidelines. The main objectives of the study are clearly stated and explained in this chapter in order to provide background information for the readers. Furthermore, this chapter explains the scope and the significance of the research.

Chapter 2 explains the research's conceptual model, which is shown and described by figure and explanation, in order to give the logical framework of the research. This chapter also discusses the theories and concepts used by the research as references, tools or models to explain the main issues that will be analyzed further in the following chapters.

The methodology employed for the study is presented in Chapter 3. This includes the selected research areas, respondents, data collection and data analysis techniques. This chapter also describes about the actors' (focus groups) interests and function.

Chapter 4 gives an overview of the Indonesian mining industry especially in relation to the prevailing social-political environment in the country since it's independence in 1945. Indonesia has undergone four major political transformations since 1949 to the present day. These four major periods will be described systematically in detail with the emphasis on the dimension of political orientation,

economic orientation and mining industry condition in each period. The author's analysis on the prevailing social political environment in Indonesia and its impact on the national mining industry condition will be placed in the last part of this chapter as a background analysis.

Following the discussion of the prevailing social political situation, Chapter 5 includes a more detailed discussion and further analysis of the Indonesian mining industry specifically under the decentralization system, which was implemented in January 2001, just over two years after the new era of Reformasi or "*Reformasi*" which was marked by the fall of President Soeharto in May 1998. This chapter also analyzes the condition of mining industry for the past six years by taking the data from two different perspectives; from those who are anti-mining and those who are pro-mining.

Chapters 6 and 7 consist of a description of the company and actors and an evaluation of the company's performance in regards to its contribution to the local development, respectively. This is done through the use of indicators from economic development theory. In addition criteria from the new mining sustainable development model are evaluated to gauge the level of sustainability of such development contributions.

Chapter 8 explores the position of representative local actors, local government and

community councils to be specific, on the company's contribution. The other purpose of this chapter is to explore the actual perception from each of the local stakeholders regarding the existence of the mining operations. An important part of the analysis of this chapter is the changing of relations between INCO as a mining company in Indonesia and the various concerned actors (central and local) under the decentralization system period. The analysis on the local actors' perception is divided into different levels, ranking from the high level actors (local government and parliament) down to the local actors or stakeholders or the grass roots level. This chapter attempts to provide the answers to the research's main question in Chapter 1 based on the results that shown by the local actors' perception.

Chapter 9 provides a concise summary of the main arguments taken in the research and also outlines the implications that these present for policy decisions as well as areas that are of particular interest for future research.

CHAPTER 2 METHODOLOGY

This chapter explains the methodology for this research, including the rationale for the selected methodology, the construction of research framework and the strategy to respond to the research questions and achieve research objectives, and the process of data collection and analysis.

2.1 Research Paradigm

Restating the introduction chapter in this research, the main objective of this research is to analyze the impact of mining industry to the local development and how decentralization has changed the prevailing socio-economic situation and condition that significantly affects the expectation placed upon the incumbent mining corporation. Careful observation to the research objective is central to the selection of methodology in answering the research questions.

Principally, a research can be quantitative, qualitative or a combination of both. The degree to which a research is considered quantitative or qualitative is very often difficult to measure (Selener 1997). To make a research fully quantitative while ignoring the need for qualitative explanation may not be applicable in certain cases. On

the contrary, the use of quantitative analysis helps increase the reliability of the data by reducing the possible bias from researcher's personal opinion as well as establishing a commonly accepted basis for drawing conclusion (Taggart 1997).

Within the context of this research, measuring the changing expectation of shareholders cannot be achieved by using raw numeric data. Nevertheless, to gauge the actual impact of the mining company's operations in establishing a comparison as a proxy indicator to assess the reasonability of the expectations, the aid of numeric data is necessary. If the researcher is to provide a definite selection of method between quantitative and qualitative, this research would be better suited as a qualitative research. However, it is important to note that the aid of numeric data still forms an integral contribution to the analysis in this research.

2.2 Methodological Philosophy and Strategy of Enquiry

Having selected qualitative methodology for this research, the next step is to formulate the structure of such methodology to fit with the fundamental philosophy that forms the background and eventually the objective of this research. The key aspects of this research are decentralization, mining impact and local development. Decentralization plays a role as an exogenous factor that brings about changes to the

prevailing socio-economic situation and condition in the research area with respect to the mining impact and local development.

In measuring the impact of decentralization, this research should therefore focus on the changes that take place before and after decentralization. The prevailing socio-economic situation and condition that changes as a consequence to decentralization is hypothesized to be represented by the changing expectations of the local actors and governance structure that relates to the interaction with mining company in particular the administering of community development funds and other contributions.

2.3 Data Collection

Schedule

Period	Activity
September 2004 – July 2005	<ul style="list-style-type: none"> - First fieldwork – Data collection and in-depth observations in local level (Soroako, South Sulawesi). - Documents translation (Bahasa Indonesia into English). - Preliminary analysis on local level data and fieldwork founding writing. - Fieldwork 1 presentation – 2005 Research in Progress Seminar.
October 2005 – February 2006	<ul style="list-style-type: none"> - Second fieldwork – Data collection and in-depth observations at national level (Jakarta). - Data collection and in-depth observations on Kaltim Prima Coal (KPC) case in KPC head quarter Jakarta. - Documents translation (Bahasa

	Indonesia into English). - Preliminary analysis on the national level data and fieldwork founding writing.
March 2006 – September 2006	- Submit two research papers as Ph.D Candidacy requirements. - Research writing and review; check and re-check with the supervisor. - Fieldwork 2 presentation – 2006 Research in Progress Seminar (Last presentation). - Research finalizing; with the drafting of conclusion and recommendation. - Submit research.

Table 2.3.1: Research’s Timeline

(Produced by author)

Selected Respondents and Secondary Data

Information and data collection required for the analysis are obtained by direct sources collection and group as follows:

1. Primary Data; the data and information obtained directly from the sources who act directly as “actors” by conducting in-depth and open – ended interviews both in oral and written. The term of “actors” in this research refers to those who play two important roles; legitimated decision makers and influential figures or elements in the society (individual or group), therefore the actors in this research are as follows:

- National level:
 - a. Senior staff in Department of Energy and Mineral Resources (DEMR):

- 2 people (28 October 2005)
- b. National Parliament members (DPRD-RI): 3 people (30 October 2005)
- c. Senior members of Indonesian Mining Association (IMA): 2 people (4 November 2005)
- d. Senior staffs in INCO: 3 people (7 November 2005)
- e. INCO's former CEOs: 4 people (13 November 2005)
- f. Environmental NGO's activists: 3 people (16 November 2005)
- g. Journalists: 2 people (17 November 2005)
- Local level (*Kabupaten* or Regency and *Kecamatan* or District):
 - a. Senior officers of East Luwu Kabupaten (executive in regency level): 2 people (5 September 2004)
 - b. Members North Luwu Parliament (legislative in regency level): 2 people (7 September 2004)
 - c. Senior officers of Kecamatan (district level): 3 people (9 September 2004)
 - d. Coordinators of Community Councils (5 Community Councils): 10 people (11 – 15 September 2004)
 - e. INCO's external relations staffs: 2 people (17 September 2004)

f. Local journalist: 1 person (20 September 2004)

Notification of confidentiality: Due to the strict confidentiality requested by the primary sources, the author regrettably has to refrain from disclosing the names. However, on the personal contact basis, the author is willing to clarify.

2. Secondary Data; the written data and information which are collected from each source (actor). These documents would be like; the actors' general policy, annual report, numerical and statistical data, historical information and other related data; therefore the secondary data are:

- The data and documents of INCO.
- The data and documents of East Luwu Regency.
- The data and documents of the Indonesian mining industry.
- The data and documents from NGOs (national and local).
- Theoretical data obtained from relevant text books that will be used as the theoretical frameworks in analyzing.
- Other related data from journals and media such as; newspapers (local, national and international) and internet.

Research Site

The research fieldwork as well as data gathering was conducted in Jakarta and East Luwu Regency by taking its three districts; Nuha District, Towuti District and Malili District. However, as the mining operations main area is located in Sorowako village (under Nuha District), therefore the research will more focus on the grass roots in Nuha District. East Luwu Regency itself is under the administration of South Sulawesi Province.

Methods

The reason why this research is using the in-depth open ended interviews, because in-depth interviews allow the researcher to ask questions and listen to the answers and then follow up with further questions to really understand what people feel and think. One key function of in-depth interviews is to elicit detailed and sensitive stories about people's experiences with problems that amenable to collective solution (Rubin et al, 2001: 177). In order to explore the perception of the actors on INCO's operations in the area, the in-depth methodology is the most reliable one. Because the sources can express and say whatever they think about INCO and its activities freely without any border and limitation.

Challenges

Access to Primary Sources: It was quite hard to make interviews with the primary sources who are in the high level position; especially those who are in the government and parliament. The second issue is difficulties to reach the primary sources in the grass roots, where some of them are living in the pure remote area with a very limited of transportation access. This difficulty was however unable to be compromised with, therefore the researcher had to visit, even the most remotely located primary sources.

Solution: interviews were conducted by included other issues as a “gate” to get the important information.

Reliability of Primary Sources: There is a possibility that the primary sources’ answer does not reflect the actual logic that drive the decision making for this local actors.

Solution: during the interview the researcher has prepared supporting documents and evidences (available secondary data) that may be used to counter or confirm the primary sources’ answer.

Multidimensionality of Research Discipline: this research is case-driven rather than subject discipline-driven, therefore it is difficult to specifically limit the subject discipline of this research. The combination of various theories from different disciplines is inevitably needed in providing a comprehensive and multi-angular perspective-driven analysis in assessing the various data and findings.

Solution: the research remains very much within the subject discipline of development sociology, nevertheless the research acknowledges the importance of theories from other discipline in providing an analysis that better reflects the case study fundamental rather than submitting to the fundamental notion of such subject discipline that may limit the scope of solution, which at the same time may compromise the reliability of the solution offered to answer the research questions and achieve research objective.

CHAPTER 3 LITERATURE REVIEW

This chapter attempts to set the literary and theoretical background for the research, which is based upon governance theory (Frederickson and Smith, 2003; Peters, 2001), economic development theory (Tan, 1997; Todaro, 2003), the sustainable development concept (Goodwin, 2001; Hosoi, 2003), environmental impact analysis (Indonesian Environmental Impact Law under Ordinance No. 23/1997), social change theory (Giddens, 2001) and the principals of political theory (Budiardjo, 1998). By collaborating together the main thrusts of these theories, this study aims to analyze the relationship between the local actors and the mining operators in their area and the changes in the national social-political condition.

3.1 Theories of Governance

This research is, more than anything else, a discussion of governance. Governance theory is a modern theory of public administration. Governance theory recognizes that there have been many changes to the nature of public administration recently. Governance theory holds true that 1) there have been trends towards privatization of public services, 2) governments have been downsizing and decentralizing, and 3) there

are more market-based management and resource allocation techniques used in public administration (Frederickson and Smith, 2003).

These changes in public administration have created a need to change theories of public administration to include many stakeholders. “Public administration” is no longer limited to public servants, but also must take into consideration institutions, organizations, and their relationships between one another, the government, and the people (Frederickson and Smith, 2003).

In Frederickson and Smith’s book, *The Public Administration Theory Primer* (2003), it is noted that governance theory is not a universal definition or a concrete body of theories. Citing Lynn et al, 3, 2003, governance theory is defined as the following:

“regimes of laws, administrative rules, judicial rulings, and practices that constrain, prescribe, and enable government activity, where such activity is broadly defined as the production and delivery of publicly supported goods and services.”

Frederickson and Smith say that governance theory looks similar to traditional public administration theories, but that they also involve the intellectual incorporation of institutionalism and networks (Frederickson and Smith, 2003). The inclusion of a wide

range of stakeholders in government and the resulting complexity of relationships between such stakeholders is what we would like to emphasize in this section.

3.1.1 Decentralization, Governance and Mining

This paragraph aims to draw from the literature the relevant issues regarding decentralization in relation to governance and natural resources. Decentralization may be defined as ‘the transfer of authority and responsibility for planning, management, and resource raising and allocation from the central government and its agencies to: (a) field units of central government ministries or agencies, (b) subordinate units or levels of government, (c) semiautonomous public authorities or corporations, (d) area-wide regional or functional authorities, or (e) nongovernmental private or voluntary organizations’ (Rondinelli 1981: 1). This broad definition is currently still the basis for most definitions of decentralization today. Ribot for example states that ‘decentralization is any act by which a central government formally cedes powers to actors and institutions at lower levels in a political administrative and territorial hierarchy’ (2004: 9). One important development however is the further refining of such definitions so as to delineate between two variations of decentralization: democratic decentralization and administrative decentralization.

Democratic decentralization (often also referred to as political decentralization or devolution) occurs when powers and resources are transferred to authorities representative of and accountable to local populations. These are typically elected local governments. Democratic decentralization aims to increase public participation in local decision making. Democratic decentralization is an institutionalized form of the participatory approach. Of the two primary forms of decentralization, democratic decentralization is considered the stronger and the one from which theory indicates the greatest benefits can be derived (Ribot 2004: 9).

Administrative decentralization, or deconcentration, on the other hand concerns transfers of power to local branches of the central state, such as prefects, administrators, or local technical line ministry agents. These upwardly accountable bodies are appointed local administrative extensions of the central state. They may have some downward accountability built into their functions, but their primary responsibility is to central government. Deconcentration is considered the weaker form of decentralization because downward accountability is not as well established as in the democratic or political form of decentralization (Ribot 2004: 9).

The literature describes decentralization as having a range of possible benefits including: democratization and participation (Rothchild 1994: 1; Ribot 1996; Crook

and Manor 1998); rural development/local economic development (de Valk 1991; Roe 1995, p. 833; UNDP 1999; Helmsing 2001; Ribot 2002; Bennett 1990b); public service performance (World Bank 2000: 107); poverty alleviation (Crook and Sverrisson 2001: iii); relief of fiscal crisis (Meinzen-Dick and Knox 1999: 5; Olowu 2001); political and macro-economic stability (World Bank 2000: 107; Prud'homme 2001: 14); and national unity and state building (Mamdani 1996; Conyers 2000: 7; Bazaara 2001: 7-13).

Of the abovementioned possible benefits, those that this research is most concerned with include those related specifically to governance. Aspects of governance which appear to be most likely affected by decentralization include responsiveness, accountability, diversity and political participation (Wolman 1990: 32).

Greater responsiveness of government is expected with decentralization due to the placing of government closer to the people. Superior knowledge of decision-makers at local levels of the needs of the area combined with higher accountability due to direct elections are expected to lead to increased responsiveness of policy-making to the will of the people as well as a closer correspondence of public preferences and public policy (Wolman 1990). Accountability is expected to be increased due to the ability of local populaces being able to affect local policies through voting. In a situation where

policy-making is centralized this becomes very difficult. Decentralized policy-making will also create local policy diversity, which may be desirable when different localities have different requirements and desires (Wolman 1990: 34; see also Tiebout 1956). Increased levels of political participation by citizens and resulting positive implications for education and leadership are expected due to increased public interest and political debate.

Bennett argues that representation (external accountability) of local government is an important issue in regards to decentralization (1990c). Representation is outlined as ‘the link in democracies between the government and its administrators, on the one hand, and individuals and businesses, on the other hand’ (Bennett 1990c: 17). Discussions by Verba (1971) and Binder *et al* (1971) relate the process of representation to participation through four concepts:

1. *Identity*: the maintenance of community interest and mutual support between individuals and groups within areas.
2. *Legitimacy*: the extent to which governmental decisions are accepted as ‘right’ by individuals and groups.
3. *Penetration*: the extent and effectiveness of government impacts on individuals and groups.

4. *Distribution*: the extent of social transfers which mediate between those who depend on government and those who provide the financial and other means to support services (cited in Bennett 1990c: 18).

From the discussion of the literature on theories of governance in the previous section and the brief account of decentralization given above, it can be predicted that decentralization will have various positive impacts on governance: accountability, representation and so on. However, the literature implies also that decentralization will also cause governance to become more complicated, as the interests of a wider range of stakeholders will undoubtedly have to be included in the process and relationships between said stakeholders are likely to become more complex. What implications does this have for issues surrounding the governance of natural resources? Literature addressing this problem is overviewed in the following paragraphs.

Concern over potentially adverse environmental impacts of mining often results in opposition to mining at the local level, whereas the benefits of mining to the national economy and development influence national level agendas quite differently. Decentralization to the local levels therefore may cause local governments to end up over-riding national agendas regarding mining. Indeed this seems to have been the case in the Philippines, another Southeast Asian country which has experienced quite

significant devolution of authority to local democratic government. Democratic decentralization in the Philippines lead to the voicing of environmental concerns regarding mining and election of candidates for local office who opposed mining, which in turn lead to the withholding of consent to mining projects by local governments and, in some cases, the implementation of moratoriums to ban mining (Holden & Jacobson 2006). Central to this opposition were the activities of civil society groups, and their collaboration with local governments. Holden and Jacobson describe the actions of these actors as ‘good examples of the concept of governance, a dispersed process wherein society manages itself for the betterment of all its members’ (2006: 188). The main implication of this for mining companies seeking to implement mineral extraction operations is that having the consent of the national government is no longer sufficient. Rather that of local governance forces, including both formal local government bodies and more informal civil society organizations, must also be considered (2006: 194).

The increased voice of localities which is expected to come with decentralization reforms is just one of a wide array of forces recently causing TNCs to be more careful with local community relationships and to value issues of corporate social responsibility. These include: globalization; reputation management concerns;

investment decisions being linked to social risk; the development of social reporting; the promotion of a sustainable development agenda; and an increasing need for effective stakeholder management (Kapelus 2001: 2). Such forces are said to be increasing the costs of not upholding community relationships and social responsibilities and causing such practices, when successfully achieved to have a direct and positive affect on company profits.

3.2 Economic Development

Economic development is distinct from other branches economics, such as macroeconomics, labor economics, public economics or monetary economics. The nature of development economics is divided as such (Todaro, 2003):

- *Traditional economics* – Traditional economics is concerned primarily with the efficient, lowest-cost allocation of scarce productive resources, with the optimal growth of these resources over time to produce an ever-expanding range of goods and services. Traditional economics can also be considered the classical and the neoclassical economics taught in the introductory textbooks. Traditional neoclassical economics deals with an advanced capitalist world of perfect markets; consumer sovereignty; automatic price adjustments; decision

made on the basis of margins; private-profit; and utility calculations and equilibrium outcomes in all product and resource markets. It assumes economic “rationally” and purely materialistic, individualistic, self-interested orientation toward economic decision making.

- *Political economy*; Political economy goes beyond traditional economics to study, among other things, the social and institutional processes through which certain groups of economic and political elites influence the allocation of scarce productive resources now and in the future, either exclusively for their own benefit or for that of the larger population as well. Political economy is therefore concerned with the relationship between politics and economics, with a special emphasis on the role of power in economic decision making.
- *Development economics*; Development economics has an even greater scope. In addition to being concerned with the efficient allocation of existing scarce (or idle) productive resources with their sustained growth over time, it must also deal with the economic, social, political, and institutional mechanisms, both public and private, necessary to bring about rapid (at least by historical standards) and large-scale improvements in levels of living for masses of poverty-stricken, malnourished, and illiterate peoples of Africa, Asia, and Latin

America.

Development economics, to a greater extent than traditional neoclassical economics or even political economy, must be concerned with the economic, cultural, and political requirements for effecting rapid structural and institutional transformations on entire societies in a manner that will most efficiently bring the fruits of economic progress to the broadest segment of their populations. It must focus on the mechanisms that keep families, regions, and entire nations in poverty traps, and on the most effective strategies for breaking out of these traps. To make it real, a larger government role and some degree of coordinated economic decision making directed toward transforming the economy are usually viewed as essential components of development economics (Todaro 2003: 9).

The term “development” has different meanings to different people; therefore many disagreements have occurred in economic development literature. Gerald Tan (1997) wrote that the reason for this strong disagreements amongst scholars is about what constitutes economic development, because what some economist consider being economic development is often opposite of what other economist regard as economic development. Moreover, Tan views these disagreements by categorizing the economists as either *mainstream* or pro-capitalist economists and *radical* or neo-

Marxist economists (Tan 1997: 99, 101). Despite the debate over the definition of economic development, the indicators of economic development in this table are still relevant and reliable as a measurement tool (Tan, 1997):

Definition of Economic Development	Comments
<ul style="list-style-type: none"> • Sustained acceleration of economic growth over a long period of time 	<ul style="list-style-type: none"> • Growth-oriented • Emphasis on capital accumulation
<ul style="list-style-type: none"> • Change in structure of production towards higher productivity activities • Diversification of economic base • Shift towards wider range and higher quality products and service • Eradication of: <ul style="list-style-type: none"> - mass unemployment - mass poverty - mass illiteracy - endemic diseases - premature death - high infant mortality • Access to clean water supply, basic medical service, education • More equal income distribution • More equal opportunities to acquire income producing assets 	<ul style="list-style-type: none"> • Emphasis on structural change • Emphasis of quality of change • Emphasis on social development and provision of basic needs • Emphasis on how the benefits of economic growth are shared
<ul style="list-style-type: none"> • Permanent rather than transitory sources of growth • Economic independence • Political independence • Independent rather than dependent development • Modernization of institutions • Increasing range of choice in all aspects of life (economic, social, political) • Improve quality of life 	<ul style="list-style-type: none"> • Concern with less tangible aspects of development • Emphasis on non-economic aspects of development • Emphasis on the quality of the growth process

Table 3.2.1 Definition of Economic Development

(Source: Tan 1997: 3)

The table above illustrates the spectrum of economic development which range from very narrow to very broad. The table starts with a narrow economic development definition, that only focus on the accumulation of capital growth / gain to broader definitions, which also include qualitative changes in all facets of life (not just economic).

3.3 Sustainable Development Concept

The issue of environment recently has become crucial and important for the economic development discourses. Similar to the debate over the definition of economic development by the mainstream economists and radical economists; the environmental issue has also risen as the issue of “rapid economic growth versus environment protection”. The rapid economic growth, associated with industrialization and urban development, may alleviate poverty, but on the other side can also cause environmental degradation (Tan 1997: 289).

The term sustainable development was first introduced in 1987 the World Commission on Environment and Development in order to discuss the conflicts between environmental and developmental goals. The idea of sustainable development is to find the “middle way”. Based on that summit, the definition of sustainable

development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs (WCED 1987).

In the extensive discussion and use of the concept since then, there has been a growing recognition of three essential aspects of sustainable development (Goodwin 2001: xxix):

- Economic: An economically sustainable system must be able to produce goods and services on a continuing basis, to maintain manageable levels of government and external debt, and to avoid extreme sector imbalances that damage agricultural or industrial production.
- Environmental: An environmentally sustainable system must maintain a stable resources base, avoiding overexploitation or renewable resources systems or environmental sink functions and depleting nonrenewable resources only to extent that investment is made adequate substitutes. This includes maintenance of biodiversity, atmospheric stability, and other ecosystem functions not ordinarily classed as economic resources.
- Social: A socially sustainable system must achieve fairness in distribution and opportunity, adequate provision of social services, including health and education, gender equity, and political accountability and participation.

In the context of mining sector, Yoshitaka Hosoi (2003) argues that they are actually two models of mining development; namely “traditional enclave model” and “new sustainable development model”. The traditional enclave model refers to the period from the 1960s to the 1980s, where mining activities were dominated by handful of companies and nations. They were centralized and did not take into consideration the local communities or the environment (Hosoi 2003; Leith 2003). Furthermore, they placed priority on the benefits of their projects.

Hosoi then argues that the new sustainable development model started to be recognized in the 1990s when the mining activities were conducted by companies consensually with local communities and central and local governments through cooperation. Hosoi emphasizes not only mine development and progress, but also what the local community and the company can do after the mines are closed.

In Hosoi’s perception, the things that must be discussed by all the related parties (central government, company, local government and community) should cover all the industrial stages; from the agreement (contract), to the exploration and until the mine’s closure. Hosoi’s model for the stages of sustainable development for mining is as follows:

Traditional Enclave Model	Sustainable Development Model
<ul style="list-style-type: none"> • Negotiations and agreements between central government and mining company. • Taxes and royalties all go to central government. • Compensation for individuals. • Training dedicated to the needs of the mine. • Employment positions filled by newcomers. • Inputs sourced from outside the community. 	<ul style="list-style-type: none"> • Negotiations and agreements include communities and regional/local authorities. • Central government shares taxes and royalties. • Compensation includes infrastructure for community. • Training is expanded to benefit community as well as mine. • Mine services outsourced to community. • Employment positions for community not just outsiders. • Inputs sourced from local community and region as well as outside.

Table 3.3.1 Traditional Enclave versus Sustainable Development Model

(Source: Yoshitaka Hosoi retouched to John Strongman, World Bank, and Hiroshi Kubota, Metal Mining Agency of Japan, 1998)

3.4 Environmental Impact Analysis

A chronic problem of industrial activities and processes is pollution. In the case of the mining industry, theoretically the unavoidable impacts of a mining operation are changing topography of the area, soil removal and tailing disposal (Coutrier 2002: 3). Moreover, in general, surface mining will create more negative environmental impacts than underground mining because changes the topography of the surrounding area. In terms of this study it must be noted that INCO's operation includes surface mining.

Paul L. Coutrier (2002) in brief has identified some environment impacts from mining operations as follows:

- Tin: soil – topography – vegetation – water – tailing – social - tradition
- Nickel: soil – vegetation – water – social - tradition
- Bauxite: soil – vegetation – water – social - economy
- Coal: soil – topography – vegetation – water – air – noise – social - tradition
- Copper: soil – topography – vegetation – water – air – tailings – social –
tradition - heritage
- Gold: soil – topography – vegetation – water – air – noise – tailings – social –
tradition - heritage
- Silver: soil – topography – vegetation – water – air – noise – tailings – social –
tradition - heritage
- Industrial Minerals: soil – topography – vegetation - heritage

In the case of Indonesia, it is not clear when the environmental concern regarding the mining industry took shape, but it was generally accepted that formal outlook started when Ordinance No. 4/1982 on “The Basic Provisions of Environmental Management” was promulgated. Before 1982, however, several technical sectors had already issued regulations pertaining to the protection of the environment (Coutrier 2002: 5).

Later on in October 1997, a new Ordinance No. 23/1997 was established replacing Ordinance No. 4/1982. The new Ordinance is titled The Law on Environmental

Management. It is more operational in nature and very strict, including heavy criminal penalties like ten years jail and 500 million rupiah for pollution violations (previously only one year and ten million rupiah). AMDAL becomes compulsory and should involve public participation.

Under the new Ordinance No. 23/1997 there are four basic principles on environmental management as follows (Coutrier 2002: 5):

- *Strict Liability*: It is no longer the duty of the victim of pollution to prove that pollution occurs, but it is the accused polluter that should prove that they are not polluting. This is a good message to all developers, including the mining industry, to monitor consistently all their effluent and emissions to prevent pollution from happening.
- *The Polluter Pays*: This principle means that polluter is liable to pay for all the damage claimed from the pollution. All developers should have an effective monitoring system to enable proper quantification of value of the damage.
- *Environmental Impact Analysis (AMDAL)*: Is a study of large and significant impacts of a planned business and/or activity that is needed in the decision making process regarding business and/or activity implementation. It tries to describe the potential impacts a development is predicted to create from its

activities and what should be done to develop the positive impact and prevent or mitigate the negative impacts of the development. The study not only covers the physical, biological, chemical and geological impacts, but also the socio-economic impact of the development.

- *Sustainable Development*: Is development that takes into consideration the needs of the present generation without compromising the needs of the next generation. There is no fixed guideline for sustainable development.

3.5 Social Change

Social change is difficult to define, because there is a sense in which everything changes, all of the time. Identifying significant change involves showing how far there are alterations in the underlying structure of an object or situation over period of time. In the case of human societies, to decide how far and in what ways a system is in a process of change we have to show to what degree there is any modification of basic institutions during a specific period (Giddens 2001: 42).

Even though the social theorists have tried for the past two centuries to develop a grand theory that explains the nature of social change there is still no single factor theory that can account for the diversity of human social development from hunting

and gathering and pastoral societies to traditional civilizations and finally to the highly complex social system of today (Giddens 2001: 42).

However, Anthony Giddens (2001) views that the three main factors that have consistently influenced social change are as follows:

- The physical environment - The physical environment often has an effect on the development of human social organization. The people always must organize their way of life in relation to the natural condition of the place they are living.
- Political organization - Political organization is the second factor strongly influencing social change. In rural / traditional societies, this influence is at a minimum, since there are no political authorities capable of mobilizing the community, however still the existence of political agencies; tribal chiefs, land lords and kings strongly affects the course of development a society takes. Political agencies do not always refer to the government or political parties in modern society, but rather those that act as rulers in the society.
- Cultural factors - The third main influence on social change consists of cultural factors, which include the effects of religion, communication systems and leadership. Indonesia is a country that has a very variety of cultures from more

than three hundred ethnic groups, therefore the cultural factors still remain a very crucial factor for the social change.

Moreover Giddens adds that main factor for change in the period of modernity (the last two hundred years) can be categorized along lines similar to the factors that have influenced social change throughout history above, except that it shall subsume the impact of the physical environment within the overall importance of economics factors.

These factors are:

- Economic influences - Modern industry differs in a fundamental way from pre-existing production system, because it involves the constant expansion of production and ever-increasing accumulation of wealth. Capitalism promotes the constant revision of the technology of production, a process into which science is increasingly drawn. The rate of technological innovation fostered in modern industry is vastly greater than in any previous type of economic order. It can say that both the rapid growth of economic and the innovation of technology are supporting each other massively in this modern era.
- Political influences - The second major type of influence on change in the modern period consists of political development. Political influence in the last two or three centuries has certainly influenced economic change as much as

economic change has influenced politics. Nowadays government play a major role in stimulating (and sometimes retarding) rates of economic growth and in all industrial societies there is a high level of state intervention in production, the government being far and away the largest employer.

- Cultural influences - Among the cultural factors affecting processes of social change in modern times, the development of science and the secularization of thought have each contributed to the critical and innovation character of the modern outlook.

3.6 Political Theory

Miriam Budiardjo (1998), a senior Indonesian political scientist, states that even though there are a lot of definitions of politics formed by many scholars, there are five main concepts of political science as follows:

a. Politics as a Concept of State

State is the organization in a certain place that has the highest level of legitimate power and is obeyed by its people. In this concept, the scholars emphasize the state as the central of politic and giving strong attention to the state's official institutions, therefore this concept also recognize as "institutional approach". Roger F. Soltau in "Introduction to Politics" states: "Political science is the study of the state, its aims and

purposes....the institutions by which these are going to be realized, its relations with its individual members, and other states” (Budiardjo 1998: 9).

b. Politics as a Concept of Power

Power is the capability of a person or group to influence the behavior of other people or groups to obey and go in line with his/her or their idea/goal. The central issue of this concept is seeing politics as the process of how to get and retain the power, or also called by power struggle. W. A. Robson in “The University Teaching of Social Sciences” states that political science is concern with the study of power in society....its nature, basis, processes, scope and results. The focus of interest of the political scientist....centers on the struggle to gain or retain power, to exercise power or influence over others, or to resist that exercise (Budiardjo 1998: 10).

c. Politics as a Concept of Decision Making

Decision making refers to the process of making or choosing from alternatives. The central point in this concept is viewing politics as a decision making process to reach one consensus which is held by the society in a collective way and the people in the society must respect every decision they have made together. Joyce Mitchell writes in “Political Analysis and Public Policy,” “Politics is collective decision making or making of public policies for an entire society” (Budiardjo 1998: 11).

d. Politics as a Concept of Policy

Policy is a collection of decisions that have been taken and compiled by a person or group in order to formulate and decide on some objectives / goals and the strategy or step to achieve those objectives / goals. Scholars in this field believe that every society has its own vested interest / goal. And to reach this goal, society should have cooperation between its members who have a legitimate authority (in this context the government) to formulate the consensus that must be written as the legal policies. David Easton views that political science is a study of the making of public policy. Furthermore, Easton states in "The Political System," "Political life concerns all those varieties of activity that influence significantly the kind of authoritative policy adopted for a society and the way it is put into practice. We are said to be participating in political life when our activity relates in some way to the making and execution of policy for a society." (Budiardjo 1998: 13).

e. Politics as a Concept of Distribution / Allocation

Distribution / Allocation is a giving or transfer of portion / share of values in society. The scholars who emphasize the politics as the matter of how to reach a very fair distribution view that the main conflict that may occur in this issue is when the distribution / allocation has been set up unfair or imbalanced. And the research and audit

on the ruler's power and government policy is the most important factors to find where the weak spot of the unfair distribution is. Harold Laswell views politics in the very simple perspective as in his point of view, politics is only a matter of who gets what, when and how (Budiardjo 1998: 13).

3.7 Conceptual Framework

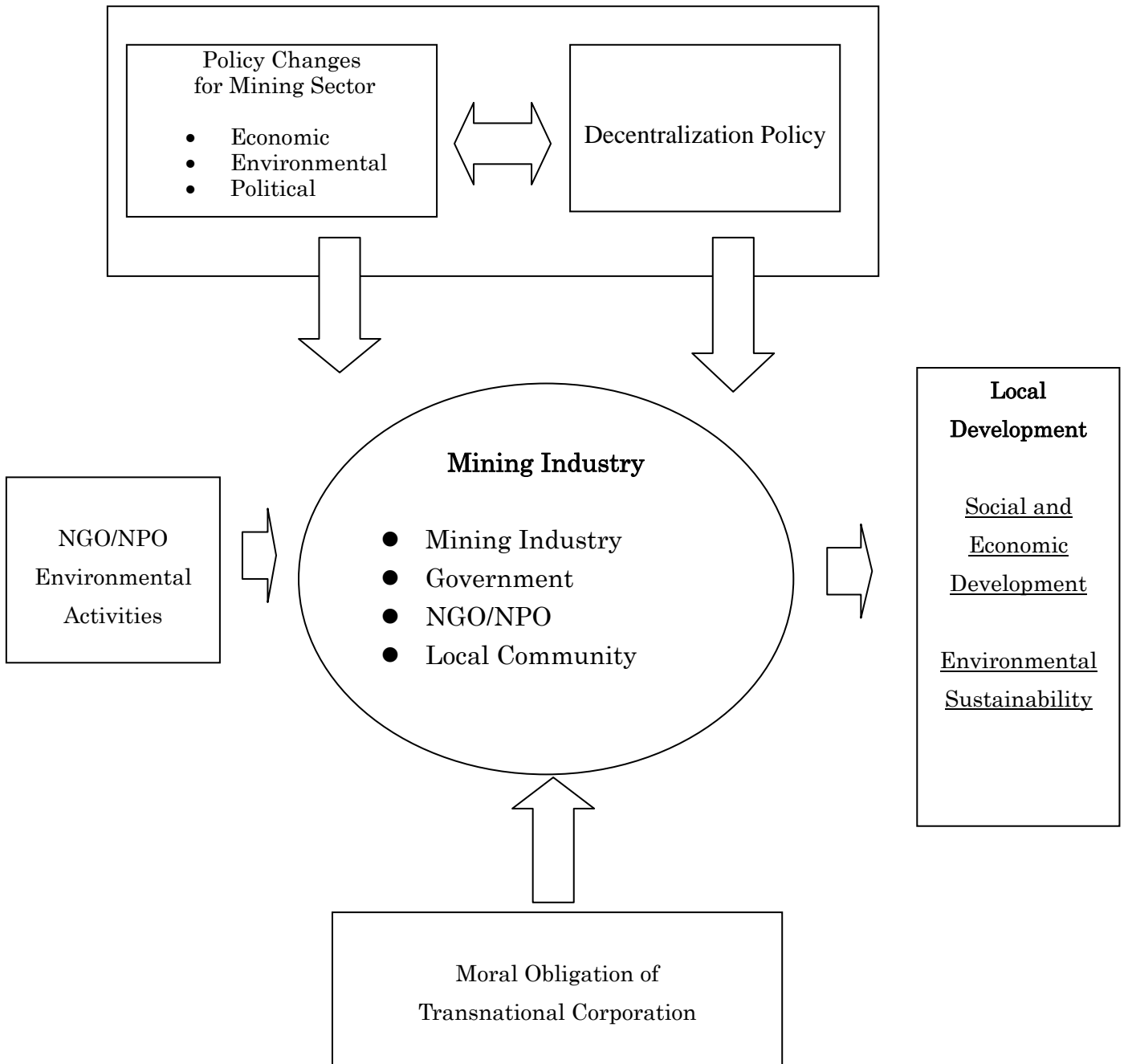


Figure 3.7.1 Conceptual Framework

(Source: produced by author under supervision of Professor Miyoshi Koichi)

The framework in Figure 3.7.1 above illustrates that the relationships between the governments, local communities, NPO/NGOs and the mining industry are impacted upon by a number of major activities/processes and in turn affect the condition and performances of the local people. The aforementioned processes/activities include: changes to mining policy, brought about by the decentralization policy; the activities of concerned environmental NPOs/NGOs; and the moral obligation (corporate social responsibility) of the transnational corporation, which is increasingly the major investor in local mining operations.

CHAPTER 4 MINING INDUSTRY (1945-2005)

4.1 Post-colonial period (1945 - 2005)

This chapter focuses on the changing political conditions and the prevailing economic orientation for each regime. The changes in political conditions bring about varying perspectives on mining and thus affect the formulation of economic policy as well as the environmental safeguard placed on mining activities. It is useful to start with a short introduction of how mining activities were during the colonial period.

During the colonial period, mining was initially predominated by public investment. There was an amendment to the colonial law on mining, which led to the increased private participation in mining. At the end of 1938, the total number of concessions and licenses operating in Dutch's Indies was around 471. Mining was the most important economic sector in Indonesia during the colonial period. In 1938, mining contributed 30.9 percent of the total export. Mining was dominated by three main commodities, nickel, oil and coal. It was only after 1930 that other mining commodities were developed (Sangaji 2002: 44).

The Japanese occupation put a halt to mining activities in Dutch's Indies,

especially due to some war damages in mining facilities. However, the Japanese occupants realized the importance of mining to support their war campaign, and through 16 *zaibatsu* and 13 other big companies, they made investments that were worth 198.872 million yen. After the declaration of Indonesia's impendence that was followed by the enactment of the Constitution 1945, some mining facilities were taken over by Indonesians (Sangaji 2002: 46-47).

Since 1945 till present, Indonesia experienced changing major political regimes. The period between 1945 till 1959 was marked with instability and changing governance. The presidential system was adopted until 1949, and was replaced with the parliamentary system that lasted until 1959, when the Presidential Decree was issued to bring back Indonesia to the original system established in 1945. This period is named as the period of early independence political regime. After 1959, the regime in place was the guided democracy. This regime lasted until 1965 when the communist party incident took place and Soeharto gradually took over the nation's leadership. The period during Soeharto's regime that lasted for 32 years, is named as the New Order period. The final regime that is still present until today is the reform regime that started after Soeharto's fall in 1998 until Yudhoyono's rule today.

Country's System	Federal	Centralization		Decentralization
Period	1949 - 1959	1959 - 1966	1966 - 1998	1998 – Present
National Socio-Polical Situation	Strong nationalist fervor after independence	Weakening nationalist (socialist) fervor due to unstable politic and disintegration	Strong political regime; people rely on government to create magic to economic	Decentralization begin; democracy at its peak; people begin various social movements to participate in decision making
	↓	↓	↓	↕
Local Social-Political Situation	Follow national condition	Follow national condition	Follow national condition	People wants to take control of their assets & economy. Local government looks for higher authority
Economic Orientation	Continue colonial economic system	Take over economic assets from ex-colonial power	Anything to speed back economic recovery & fight stagflation	Local economics development means empowerment of local stakeholders
Environmental Orientation	Less attention paid on environmental issue	Less attention paid on environmental issue	Initially no environment concerns, but in the later days of regime, environment movements went strong	Strong environment movements; bright prospect for NGOs and anti mining sentiment from many anti capitalist scholars and figures

Figure 4.1.1 Indonesian Economic Orientations under Four Major Political Transformations
(Source: produced by author)

Figure 4.1.1 shows the conceptual model for this chapter. There are four eras that were in place since Indonesia's independence. The purpose of this analysis is to provide a clear picture on how Indonesia experiences major political changes. These major political changes are hypothesized to create changes to the economic policy related to mining, as well as the environmental safeguards. Political regime is also highly intertwined with social conditions, and thus the political and social conditions

are grouped as one element in the conceptual model of this analysis. The prevailing social conditions in the society experience major changes along with changes in the political organization (Giddens 2000: 43).

There are three elements in the conceptual model, in which apart from socio-political conditions, the other elements are the economic orientation and environmental perspective. The reason why economic orientation is used as the element of analysis, instead of economic policy, is because this analysis focuses more on how mining is seen from an economic perspective rather than what policy is implemented by the administrators. The use of environmental perspective rather than environmental safeguard is fairly similar, whereby the focus is more on the changing perceptions of the society on the environmental impacts of mining.

4.2 Parliamentary Democracy: December 1949 - July 1959

Political System and Policy:

Based on the agreement between the new country, United State of Indonesia or *Republik Indonesia Serikat* (RIS) and the Dutch kingdom, Indonesia has become a federal state under the Federal State Constitution or UUD RIS 1950 (Budiardjo 1998: 69-70). In Indonesian history, this period is recognized as the parliamentary

government period where Indonesia was trying to adopt the liberal system for its political system by implementing the multi parties system (29 political parties) and parliament has been played strong role at this era (Rieffel 2004: 101). The president was only the symbol of nation, while the authority to govern the country was in the hand of prime minister.

During this period the country was facing the political and security's instability, where the short age of cabinets and the rebellion movements who struggle to have their independence were the main problems (Budiardjo 1998: 70; Rieffel 2004: 101). Because of the over powerful of the parliament, therefore they could dismissed every cabinet at that time immediately who has been seen not have good performance to run the country. Some how is good because the control function was applying, but on the other hand there was no any development program that had been accomplished as it had always being stopped in the middle by the parliament. During the year of 1950 – 1960, the big separatism movements were as follows:

- *Angkatan Perang Ratu Adil (APRA)* in Bandung and Jakarta led by Raymond Westerling (January 1950).
- *Angkatan Perang Republik Indonesia Serikat (APRIS)* in South Sulawesi led by Andi Azis (April 1950).

- *Republik Maluku Selatan (RMS)* in Maluku led by Sumokil (April 1950).
- *Darul Islam / Tentara Islam Indonesia (DI/TII)* in West Java led by Kartosuwiryo (latest 1949), Central Java led by Amir Fatah and Kyai Sumolangi (May 1950), Aceh led by Daud Beureuh (September 1953) and Makassar led by Kahar Muzakar (1952).
- *Pemerintahan Revolusioner Republik Indonesia (PRRI)* in West Sumatra, Medan, Palembang and Manado led by Syafruddin Prawiranegara (February 1958).
- *Perjuangan Rakyat Semesta (Permesta)* in North Sulawesi led by Ventje Sumual (February 1958). (Dewan Harian Angkatan 45, 1982; Berger, 2003: 436)

Those rebellion movements above were the most serious problems faced by Indonesian government during the implementation of liberal democracy system.

Economic System and Policy:

There are not much to discuss on the economic system under parliamentary democracy period as at this stage Indonesia still inherits an agricultural export economy based on Dutch investment. Linking capitalism with colonialism, nominally

socialist parties move to dismantle the colonial economy slowly. With little private capital, state capitalism drives efforts to reduce foreign control. The state controls some banking, utilities, industry, and trading firms, but with the goal of boosting a private sector. In the short word, Indonesian economic policy was still using the colonialist system (under Dutch's economic law) and the Dutch's investment also still owned a major portion of the total national industry.

Mining Industry Condition:

During the parliamentary democracy period Indonesian government was still using the Dutch mining regulation known as *Indische Mijnwet*. However, in 1951 some of parliament members led by Mohammad Hassan proposed the amendment of mining law to the parliament. The main objectives of this proposed amendment were first, asked the government to immediately form State Committee for Mining called as "*Panitia Negara Urusan Pertambangan*" to work intensively in one moth in restructuring the mining regulation. This committee has several tasks as follows:

- Immediately conducting investigation on national mining potential such as; oil and minerals mining.
- Preparing draft of new mining regulation that reflects the existing condition.

- Providing recommendation to the government regarding oil mining area in North Sumatra as a special case and other oil mining areas.
- Providing recommendation to the government regarding oil production tax and oil price determination.
- Recommending mining policies with the objective of increasing state wealth and deliver it to the government and parliament to be approved.

The second objective of this amendment proposal was proposing the government to postpone the approval of concession and exploitation permit until the state committee for mining has finished its tasks. However until 1958 there were no any fundamental changes on the business regulation, property rights on the natural resources and mining industry regulation (Sangaji 2002: 49).

4.3 Guided Democracy: July 1959 - March 1966

Political Policy and System:

Learning from the bad experience when Indonesia was trying to implement the liberal democracy with the federal system in the past ten years, on July 5th 1959 President Soekarno had taken initiative to overcome the instability problem by using centralized and “iron fist” government system, known as Guided Democracy system or

Demokrasi Terpimpin (www.britannica.com/eb/article-22823). The federal system of *Republik Indonesia Serikat* (RIS) has been dismissed and back to Republik Indonesia or *Negara Kesatuan Republik Indonesia* (NKRI). The nation constitution also back from UUD RIS 1950 to UUD 1945. The 1945 Constitution or UUD 1945 that gave much of power to the president was using by Soekarno with the strong military's back up in order to legalize the new system that he will apply (www.gimonca.com/sejarah). In Soekarno's point of view it has already been proofed that the federal system and liberal democracy only led Indonesia to the instability (seven times cabinet reshuffle) and disintegration, therefore it must be stop immediately.

After Soekarno has successfully settle down the rebellion movements in the regions, as he strongly believed that the Western block was also supporting those movements (Berger 2003: 436); therefore finally Soekarno started to direct Indonesia to become a Socialist country, which was pro-communist block (Moscow and Peking). The spirit of Indonesian Marxism known as "Marhaenism" was introduced to the Indonesian people, especially the farmers and labors as the proletariat class. Soekarno believes that actually Indonesian people have their own identity of ideology; which is much similar to Marxism (www.indonesia.com/bernas/052001/22/utama/22uta1.htm).

When Soekarno announced his campaign of “Anti Neo-Colonial” forces, Moscow and Peking were much happy to have their strong ally in Southeast Asia. That is why right after Soekarno has announced his anti-western policy; they started to support Indonesia for its military’s facilities and equipment. This strong relationship between Indonesia, China and U.S.S.R is popular called as “*Poros Jakarta – Peking – Moscow*” (www.gimonca.com/sejarah). The year 1960 – 1965 was the “glory days” for Indonesian communist supporters under the Indonesian Communist Party or *Partai Komunis Indonesia* (PKI)’s umbrella. PKI’s members and agents were spreading almost in every country’s elements; namely government officers, parliament members and high rank military generals; especially the air force and navy. Moreover, with regard to the anti neo-colonial spirit, in 1963 Soekarno had announced the confrontation against Malaysia in order to take over Sabah and Sarawak in Northern Kalimantan. Soekarno accused Sabah and Sarawak as the British’s “puppet countries” that must be occupied by Indonesia. During the confrontation time, PKI was the party who strongly supported this action by trying to set up the Fifth Brigade or *Angkatan Kelima*; the volunteer militias that recruited from farmers and labors. Finally Indonesia was failed to occupy Sabah and Sarawak, but the tension of anti neo-colonial spirit was still high (www.gimonca.com/sejarah).

Soekarno's power and communist's glory era was started to fall down right after the PKI and some of military forces (mostly air force and navy) have been failed to conduct military coup well known as *Gerakan 30 September PKI 1965* or G30S-PKI/1965 (www.gimonca.com/sejarah). This is one of Indonesia's most famous histories, because it is still debatable, where there is much controversial and become "mysterious" history until today. Many of new books, papers and analysis were published both national and international regarding with this case. The books are written by various writers with different perspective such as; pro-Soekarno, pro-Soeharto, "Reformasi 1998" student activists and international writers. Each writer's point of view is much contrast, especially with the issue of Soeharto's connection inside PKI itself. However, this part will not make a further analysis about this issue as it only describes the crucial moment that finally had taken down Soekarno from his power after sixteen years ruling the country since 1949.

After the G30S-PKI movement had been failed in October 1965, and then Lieut. Gen. Soeharto, Chief of Kostrad, by his own initiative had taken action to overcome and re-control the country's situation. Together with army special force, *Resimen Para Komando Angkatan Darat* (RPKAD); now is Kopassus; Soeharto hand in hand gradually could take over the power by destroying all the PKI's spots in all over the

country. Not only using the military forces, Soeharto also has been successfully mobilized the anti-communist people from Islamic groups (Pemuda Anshor NU, Banser), nationalist groups (front Pancasila) and students to help the army in searching the PKI supporters.

Finally, Soekarno has lost his power to control the situation. The students, after that known as “Angkatan 66 activists” have been conducted demonstration rally in Jakarta almost everyday asking Soekarno to step down. At the end the mysterious letter of “*Surat Perintah 11 Maret 1966*” or *Supersemar* was giving to Soeharto in Bogor Presidential Palace (www.gimonca.com/sejarah). The content of this letter is about the authority and power shifting from Soekarno to Soeharto (New Order version), but until today the original letter is disappeared, and the only three witnesses of this Supersemar were all passed away. They were three army’s generals; Amir Machmud, Basuki Rakhmad and M. Yusuf, who had passed away in October 2004. This mysterious moment is still a controversial debate in the country, but in fact this is the momentum of Soekarno’s fall.

Economic Policy and System:

In term of economic policy, Soekarno had issued the Ordinance No. 10/1959 in order to protect the country from the power of “neo-colonialism” in 1959. Under this regulation, Indonesia closed its doors to foreign investment, especially for the national vital industry sectors (Singawinata 2005). This was the period during which the Indonesian government has seized all the Dutch assets together with some of foreign companies under a nationalization program. After nationalization, all the former Dutch’s assets and companies were run by state corporations established by the government.

The plantation, oil and mining sectors were the most important assets taken over by the Soekarno’s government (Sangaji 2002: 50 - 53). This was the time when the government controlled almost every business sectors in the country through those state corporations. That is why many of Indonesian historians and economists view the Soekarno’s economic policy as the socialist economic system where the role of private sector is eliminated systematically. Similar with the political system’s brand “Guided Democracy”, Soekarno names his economic policy as Guided Economy system.

The regime’s Guided Economy seeks to industrialize through centralized planning and control, which Sukarno calls "Socialism ala Indonesia". However due to the failed policies and mismanagement that has caused inflation, a fall in per capita GDP, and an

inability to import goods or service debts, finally by the end of 1965 the Indonesian economy collapsed (Editor Team 2003).

Mining Industry Condition:

The first step taken by Soekarno's government when they started to seize the Dutch's mining companies under the nationalization program in the beginning of 1959 was the establishment of task force under the ministry of mining called as *BAPPIT*. BAPPIT was responsible to prepare and establish the state mining companies that will take over all the Dutch's mining companies in the entire country. In 1958, the Dutch company GMB was replaced by the new national state company PN. Tambang Timah Belitung (Sangaji 2002: 50).

In the following year in 1959, two big Dutch's mining companies were also took over by the government; they were; NIAM (oil) that was replaced by PT. Permindo and The Singkep Tin Exploitation Company (NV Sitem) which was replaced by PN. Tambang Timah Singkep. After that, the government had cancelled the mining rights of all Dutch's companies and individuals. These mining rights were included survey permit, exploration permit, exploration and exploitation permit, exploitation concession and proposal for exploitation concession permit (Sangaji 2002: 51).

In 1961 the government had issued series of regulations regarding the establishment of state mining companies as follows (Sangaji 2002: 53, 57-58):

- Government Regulation No. 3/1961 about the establishment of PN. Pertamina for oil mine.
- Government Regulation No. 86/1961 about the establishment of Badan Pimpinan Perusahaan-Perusahaan Tambang Batubara.
- Government Regulation No. 87/1961 about the establishment of state mining companies for tin mine; PN. Tambang Timah Bangka, PN. Tambang Timah Belitung and PN. Tambang Timah Singkep.
- Government Regulation No. 88/1961 about the establishment of state mining companies for general mine.
- Government Regulation No. 89/1961 about the establishment of PN. Tambang Bauksit Indonesia.
- Government Regulation No. 91/1961 about the establishment of PN. Tambang Emas Cikotok.
- Government Regulation No. 92/1961 about the establishment of PN. Tambang Batubara Ombilin.
- Government Regulation No. 93/1961 about the establishment of PN. Tambang

Batubara Bukit Asam.

- Government Regulation No. 95/1961 about the establishment of PN. Tambang Timah Belitung.
- Government Regulation No. 96/1961 about the establishment of PN. Tambang Timah Bangka.
- Government Regulation No. 97/1961 about the establishment of PN. Tambang Timah Singkep.

Finally, the above facts have shown how the government has played as the only actor in the development of mining industry. The various government regulations, which include the establishment of state mining companies, left little space for private sector to participate in the mining industry. The socio-political atmosphere during this regime was marked by intense desire to speed up economic development without any reliance to the Right block¹. People had very little say due to the lack of participation in decision-making. This lack of participation was worsened by the fact that people lack the capacity to participate in political decision-making. Nevertheless, the strong coordination in people's movements, which were led by ruling party members, played central role in the shaping people's sentiments on how mining should be operated by

¹ During the period of guided democracy, the global political situation was marked by the Cold War. Soekarno has made clear preference on siding with the Left block.

the state instead of foreigners.

4.4 Pancasila Democracy: March 1966 - May 1998

Political Policy and System:

One year after the issuance of Supersemar, Gen. Soeharto was officially installed as the second president of Republik of Indonesia on March 12th 1967. This was the new beginning of the new regime era, Orde Baru or “New Order Era”. In order to anticipate the communist strikes back, during Soeharto’s era everything that related to or accused as communist idea will be banned immediately (Tim Redaksi Kompas 1999a: 100). The government uses the law of subversion, sensor institution, intelligent unit (BAKIN) and also youth groups such as *Pemuda Pancasila* (PP) and *Angkatan Muda Pembangunan Indonesia* (AMPI) to detect, identify and take any action needed to sterilize the whole country from this chronic threat or “*bahaya laten*” (Tim Redaksi Kompas 1999a: 91). Moreover with the strong back up by the army, Soeharto’s regime also implements the ABRI (armed forces) dual function system or “*Dwi fungsi ABRI*” policy that have gave the ABRI big role almost in every segments; politic, economic and social (Tim Redaksi Kompas 1999a: 125-127; Rieffel 2004: 104).

The main objective of the dual function policy is to control and protect the country

from inside and outside threats, but at the end with this dual function system the ABRI was only doing something for their own benefit economically and could easily be banned or eliminated every people or movement that being considered as a threat. Moreover, to control closer of political situation, Soeharto has squeezed the political parties into three parties only; *Partai Persatuan Pembangunan* (PPP) as the representative of Islamic elements, *Golongan Karya* (Golkar) as the representative of New Order's supporters and *Partai Demokrasi Indonesia* (PDI) as the representative of secular nationalist elements. And these three parties must accept the only nation ideology, which is actually found by Soekarno, *Azas Tunggal Pancasila*. The people who reject this ideology will be accused as a traitor or rebel (communist or fundamentalist Moslem), which only have two choices, send to jail or being killed.

To write about Soeharto's era, it is quite difficult for the author to describe it as objective as it can be, because there are still a lot of debate regarding Soeharto's rule based on the perspective of pro-Soeharto's element and anti-Soeharto's element. However, this part will describe about Soeharto's era with the compilation of two different perspectives; pro and contra. From the New Order's supporters' point of view, in fact that during 32 years of Soeharto's period, Indonesia have been achieved some significant achievements as follows:

- The strong country's integrity supported by the stability of political and security condition.
- Growing of economic development; with 7 – 8 % of economic growth per year since the implementation of five years development program or *Repelita* in 1978.
- High technology transfer and adoption in some vital projects such as; satellite (Palapa), airplane (IPTN), nuclear (BATAN), weapon (Pindad) and hi-tech research (BPPT).
- Played a big role in international community relations in ASEAN, OKI, OPEC and UN. For a several times in Soeharto's era, Indonesian armed forces had been joined the peace keeping forces under UN. The last mission was in Bosnia Herzegovina and Sarajevo in 1992.

Of course there is opposite perspective about those points above, those evidences above are the facts that hard to deny.

Economic Policy and System:

For economic policy, after the fall of President Soekarno in March 1966 and because of the chaotic situation during the transition in 1966-1967, the Indonesian

economy completely collapsed with an inflation rate 600 percent and many business sectors were closed down (Syahrir 2002). For this reason, as has mentioned before Soeharto took steps to exert strong control over the country through military force, and radically restructured the Indonesian economy policy; moving it away from the socialist system (Guided Economy) to capitalist system. There were five indicators showing that Indonesia was implementing the capitalist economic system during Soeharto's era as follows:

- Liberalization of economy system (free market economy) by allowing the private sector (domestic and foreign entity) to enter and even monopolize the business sectors that were protected in the past.
- Opening the door to the FDI (Foreign Direct Investment) almost in every sector.
- Opening the exchange rate in currency and stock market.
- Opening the export import system under the international trade system (WTO).
- Liberalization on national banking system.

Despite of those indicators above, however Soeharto's regime always claimed that they were not implementing a capitalist system but rather an "Indonesian" economy system, "*Ekonomi Pancasila*," based on the national ideology of *Pancasila* (Mubyarto 2002b).

The Ordinance No. 1/1967 that has been using by the Indonesian government since

Soeharto's regime to up until now, is the legal principal for Indonesia in implementing a capitalist system by opening its doors widely to the massive foreign investment and allowing powerful business groups to monopolize some sectors of business legally, which is later also had become a big problem. One of the differences that very obvious between the national economic policy under Soekarno and Soeharto is that Soeharto's regime focused on industrialization, especially heavy industries and advanced technology while Soekarno was strengthening the farmer's power (Syahrir 2002). Soeharto wanted to accelerate Indonesian economic development by developing these industries. It is undeniable that during during the 1980s until middle of 1990s, Indonesia was one of the most rapidly developing countries in Asia (Begg 2000: 521).

Another interesting feature of this period is that some of biggest business groups called *konglomerat* started to become powerful and monopolize many sectors of business throughout the country. Most of these groups were owned by Chinese Indonesians and they became good partners for the government bureaucracy in almost every business in the country (Kwik 1997). Many economists suggested that one of the most significant factors that had pushed Indonesia into a capitalist economic system was that it opened up a wide range of opportunities for these *konglomerat* to become bigger and stronger. B.J. Sumarlin, Soeharto's minister of finance, implemented the

liberalization of the Indonesian banking system by issuing his famous regulations called “*Gebrakan Sumarlin*” in 1987 and 1991 (Editor Team 2003).

The time line summary of economic situation under Soeharto’s time can be found as follows (en.wikipedia.org/wiki/New_Order_%28Indonesia%29):

1966-1973: With Suharto in power, new policies reduce the state role by encouraging foreign investment and the private sector. But the regime maintains huge state firms, limits foreign ownership, and protects key industries. A National Development Planning Council that produces a series of Five-Year Plans is marked by a battle between Western-educated economists ("the Berkeley Mafia") and economic nationalists.

1974-1981: Oil price hikes fund a return to a state-led economy, including steel, oil-processing, and cement projects. The state oil firm grows into a huge conglomerate and source of funds for army and political factions before collapsing. Suharto cronies and connected ethnic Chinese build banking, trade, manufacturing, and timber empires. Riots spur foreign investment restrictions to boost local ownership.

1982-1989: Falling oil prices spur reforms urged by the World Bank and domestic businesses: boost exports, cut the budget, and replace state investment. Policy shifts

from heavy industry to export goods; the mechanism is increasingly private investment. Banking and trade are deregulated, investment relaxed, and some state and private monopolies ended. State firms still account for 30 percent of GDP by 1990.

1990-1996: Liberalization is accompanied by a boom in foreign investment. Dismantling of the state sector continues, with shares sold in telecom, banking, and mining, and state monopolies opened. But in 1995, 180 state firms still account for 15 percent of GDP. The Five-Year Plans continue but emphasize private-sector development.

1997-1998: The financial crisis sweeps the region, causing the rupiah to crash. Investors panic, debts soar, and the banking sector collapses. The crash reveals weak banks, bankrupt conglomerates, and a corrupt judiciary. A massive bailout of the conglomerates leaves the state temporarily owning major parts of the economy. Despite IMF pressure to sell assets and privatize state firms, progress is slow.

The Main Factors of Soeharto's Fall

The fall of Soeharto can not be separated with the Asian monetary crisis that had been hit Indonesia in the middle of 1997 (Tim Redaksi Kompas 1999a: xxvii-xxxi). There are too many reasons why the opposition groups were in struggle against

Soeharto, but it could be summarized as these following crucial points (Liddle 2001b):

- a. Corruption, Collusion, Nepotism (KKN issue) almost in every segments; politic, economic and social. As mentioned before that most of the economic development distribution was unequal and unfair, which is only enjoyed by a certain people around Soeharto's clan and crony (Tim Redaksi Kompas 1999b: 48-50).
- b. The killing of democracy life. The militaristic government has made a very strong barrier and border to the people in expressing their aspiration, therefore the creativity of thinking and freedom of expression have totally gone (Tim Redaksi Kompas 1999a: 257-258).
- c. Human rights violation. As we know that almost in every case or problem settlement, the government always had been using military forces to overcome. Special cases like DOM in Aceh, Papua and East Timor, Tanjung Priok riots, July 27th 1996 tragedy and May 12th 1998 Trisakti University tragedy are the examples of Soeharto's reaction to overcome the oppositions (Tim Redaksi Kompas 1999a: 101).

Mining Industry Condition:

During Soeharto's long lasting regime, foreign investments in mining sector were

at its peak (Sangaji 2002; Wahyu 2002). Between 1967 – 1990, inflow of foreign investments in mining sector reached 2,339.9 US dollar million (Sangaji 2002) and there is no doubt that foreign investments have been the crucial panacea for Indonesia's chaotic situation in 1965 (Hill 2000; Wahyu 2002). The high point in foreign mining investment during Soeharto's regime was the issuing of five types of license for mining commercial operations. First is the production sharing contract (PSC) for oil and gas mining; second is the contract of work (CoW) for general mining commodities excluding coal; third is the Coal Contract of Work (CCoW); fourth is the Mining Trustee (KP) for national private or public mining companies and fifth is the Local Region Mining License for C type mining commodities (SPID). As this research focuses only on foreign investment in mineral mining (non-oil), only the CoW and CCoW licenses will be included in the analysis.

The CoW license is governed by the Ordinance No.1/1967 and Ordinance No.11/1967, both of which provide the opportunities to foreign investors to enter the mining sector. CoW is issued by the government and is accompanied by an agreement signed between the Department of Mining (now Department of Energy and Mineral Resources) as government representative and the foreign investor, which has to form a legal commercial entity in Indonesia. CoW has to be approved by the parliament. CoW

gives a big boost to foreign investors by guaranteeing them the exclusive rights to perform operations from the pre-exploitation until the final marketing of the processed mining commodities. In detail, this includes general survey (1 year), exploration (3 years), feasibility study (1 year), construction (3 years) and production (30 years).

The CCoW differs from CoW because it underwent a major revision. In 1993, based on the Presidential Decree No.21/1993, the government representative in the signing of agreement was the state company, PT. TBBA (Tambang Batu Bara Bukit Asam). However, in 1996, the signing of agreement became similar to CoW, since the Department of Mining (now DEMR) replaced PT. TBBA in the signing of agreement with the foreign investor. The fundamental difference between CoW and CoW is in the system of payments to the government. Instead of imposing royalty payments like CoW, CCoW requires production sharing payments that are calculated at the rate of 13.5 percent of the total sales based on the FOB price.

With the new policy and regulations made by Soeharto's regime, at the end during his administration Indonesia had become one of the most attractive mining investment destinations in the world (Kiroyan 2000b). Some big TNCs started to enter mining industry; such as Freeport in 1967 in Timika, West Papua and INCO in 1969 in Sorowako, South Sulawesi. As the research will focus on INCO's case, the detail

historical background about INCO will be discussed later.

4.5 *Era Reformasi: May 1998 - Present*

The Reformasi Movement's Main Agenda

This part will not describe about the story or chronology of *reformasi* movement in May 1998 – present as it will only summarize the situation and condition of Indonesia under the next four presidents after Soeharto. But before that, it is also important to know the central issues of *reformasi* movement as follows (Tim Redaksi Kompas 1999a; Liddle 2001a):

- a. Bringing Soeharto and his crony into the court for their responsibility of the country's bankrupt and brings back all the wealth that they have stolen.
- b. The settlement of the KKN (corruption, collusion, nepotism) in every nation's institution; executive, judicative and legislative by bringing all suspects to the court.
- c. Dismissing the Golkar, as the main reason of the country's chaotic.
- d. Withdrawing the ABRI dual function system in the government and pull out military influence in the government.
- e. Bringing back the people's authority, human rights and freedom of expression

in the country.

- f. To re-construct the law enforcement in the country.

These reformasi main agendas until today is still being proposed by the students, because many of pro-reformasi activists see the reformasi movement is already lost its moment and values. However, in fact the new era of Indonesia now is still going on, some people might be pessimistic but again it is very much depend on personal perspective to make an assessment whether reformasi has given positive impact or not.

Political Policy and System:

There are two fundamental changes on national political system in reformasi era; first is the re-implementation of multi-parties system, which has 48 political parties in 1999 election and 24 political parties in 2004 election (www.kpu.go.id/ProPartai/1999/partai_1999.shtml) and second is the implementation of decentralization system in 2001 under the Ordinance No. 22/1999 (revised as Ordinance No. 32/2004) and Ordinance No. 25/1999 (Brojonegoro & Asanuma 2003; Rieffel 2001: 100). The main idea of this new system is to give more power and authority to the local administration in managing and ruling their own regions, but in the reality some negative impacts have occurred such as; the uncertainty of law

because of the bias authority between the central government and the locals, the increasing of ethnocentrism movement in the regions and overlapping of regulations (Tim Redaksi Kompas 1999b: 159-160; Gatra, December 7th 2002; Rieffel 2004). On the economic and business side this situation has been significantly damaging the investment and business climate in the country (PricewaterhouseCoopers 2003).

Even though many people now started to question and doubt about the reformasi movement, but in fact there are some points that might be seen as positive improvements as follows (Tim Redaksi Kompas 1999a; Liddle 2001a):

- The freedom of speech and aspiration has a wider space, especially in the press media. The people have started to learn about how to live in democracy system and also could be an effective monitoring tool to the ruler; even it is still far to go.
- The implementation of regional autonomy system in year 2001; even it is still has some constraints but the voice and the interest of the regions (especially outside Jakarta and Java) has been gradually had an attention form the central government. The principal of this new system is actually positive; because it gives the regions to maximize their capacity building to take care of their own places.

- The withdrawing of military element in parliament. Even seems like there is no big changing, but at least this is one of the big breakthroughs since 1967 when military element always had their given quota in the parliament.
- The first direct presidential election has been successful conducted in September – October 2004 with the elected of Susilo Bambang Yudhoyono as the sixth president of Indonesia. This is the obvious fact that could not be denied that reformasi has been given a big positive impact to the democratization in Indonesia.

Besides the positive impact of reformasi, the current situation also been complained by some people as the most “uncertain” and “unstable” condition after 1965 era under Soekarno. This feeling or perspective could not be blame as contra-reformasi, but in reality it is hard to deny that since 1998–now, the national situation is still vulnerable. And with this kind of situation, it is a hard time for many of people to get a job or work securely in the long run. These negative of current condition could be summarized as follows:

- Country’s disintegration. The separatism movement triggered by the unsatisfied of the people in regions has been rising since 1999 – now in Aceh and Papua. East Timor was separated from Indonesia in September 1999 after the

referendum (Vee 2001: 12).

- Horizontal mass violence (ethnic, group and religion) in some area such as Maluku (Moslem vs Christian) and Central and West Kalimantan (Dayak vs Madura). That violence was happened during 1999 – 2002 and until this time there are still many things to do to fix the problem (Vee 2001: 17).
- The uncertainty of law enforcement has been given a very negative impact to the economic and business activities in the country (PricewaterhouseCoopers 2004).

Economic Policy and System:

Under the new era of reformasi, many people view that actually the Indonesian economic system is remain the same as Soeharto's era, where there are no any significant or fundamental changes on the economic policy (Tim Redaksi Kompas 1999b: 48-51). The *konglomerat* groups still remain strong even though is not as powerful as in the past; the FDI still plays a significant role in the national business and investment, the banking system is also the same, etc.

Only when Habibie, Soeharto's deputy, became president in May 1998, the issue of encouraging small and medium-sized enterprises (SMEs) became important. This was

because his minister of cooperatives and SMEs, Adi Sasono, emphasized strongly SME development. During this period, the battle between SMEs and the *konglomerat* groups that were no longer in favor was quite obvious. Almost every day in the media, economic analysts and experts blamed the *konglomerat* groups for the national economic bankruptcy (Singawinata 2005).

Adi Sasono often talked about the concept of *ekonomi kerakyatan* or “people’s economy” as the solution to Indonesia’s problems (Asia Week, December 18th 1998). He believed that the key players in development were the SMEs, not the *konglomerat*. But because of his promotion of the SMEs in opposition to the *konglomerat*, he was accused by some Indonesians and the international community of being anti-Chinese. This was because the majority of SMEs belonged to indigenous Indonesians, while the *konglomerat* were run by the Chinese Indonesians. As an example the *Washington Post*, (March 2nd 1999) referred to Adi Sasono in a headline as “Indonesia’s Most Dangerous Man”.

After Habibie step down, Indonesia was led by Abdurahman Wahid Wahid (Gus Dur) in 1999 to 2001, Megawati Soekarno Putri in 2002 to 2004 and Susilo Bambang Yudoyono since 2004 - now. Until today, the conflict between the *konglomerat* and the SMEs is still an issue in the country even though is not as strong as in 1999. A major

event in Indonesian economy policy during the reformasi period was the issuing of Ordinance No. 5/1999 aimed at monopolies and unfair business competition as the response of Habibie's regime to the SMEs' proposal (Kompas, July 25th 2001). In general, it is undeniable that the current economic situation is not as conducive as in the New Order's time. The law certainty and political stability are the important factors that have not been achieved yet by the government in reformasi era.

Finally to see the country's general situation under the next four presidents after Soeharto that also have been affected the national economic condition might be summarized as follows:

1. Burhanuddin Jusuf Habibie (1998 – 1999)

Positive achievements:

- Quite successful to save Indonesia's macro economic by pressing the dollar currency to 6,000 rupiah/US\$ at the end of his period. The dollar had reached 15,000 rupiah in August – September 1998.
- He was quite successful in improving the capacity building of small medium enterprises (Smes) to keep the national business survives during the crisis.
- He had been pulling out the DOM (Military Operation Region) policy in Aceh.

Problems :

- As a Soeharto's crony, in some people's perspective, especially the students and pro-reformasi activists, he still has seen as a person who also must take responsibility of the country's collapse. He was also been accused in some of corruption cases such as IPTN project, Pelni project and other controversial projects.
- He had not been taken any action in bringing Soeharto into the national court.
- The separation of East Timor from Indonesia in September 1999 has made him lost of support from the military.
- The horizontal violence between the Moslems and Christians was exploited in January 1999 (Vee 2001).
- Habibie had pull out form the president candidates in extraordinary presidential election in December 1999.

2. Abdurrahman Wahid or Gus Dur (1999 – 2001)

Positive achievements:

- Has opened so much opportunity widely to the people in order to conduct the freedom of speech and expression, especially to the press media by dismissed the sensor institution under department of information (*Departemen Penerangan*).
- Has showed big effort to create a national reconciliation between every elements who has been have a historical conflict in the country by given an amnesty to the ex PKI / communist's supporters.
- As a philosopher and humanist / pluralist person, Gus Dur has been recognized and approved the Kong Hu Cu as one of country's official religions, because it is a belief of the majority of Chinese Indonesian.

Problems :

- To many controversial statements and actions that had been created confusedness for his government to work. Gus Dur is an unpredictable president that Indonesia has ever had before.
- Gus Dur does not have a clear direction and policy in term of economic development plan.
- He had never taken any action to bring Soeharto to the court. But, his action in arresting Tommy Soeharto (Soeharto's youngest son) and Bob Hassan

(Soeharto's best partner) and sent them into jail was something that should be appreciated also.

- Some horizontal conflicts in Maluku, Poso and Kalimantan still existed during his era.
- Some Islamic groups have accused Gus Dur as anti - Moslem's aspiration. It is quite interesting that as the leader of NU, in the opposite side many of Islamic group's leaders see Gus Dur's way of thinking is much secular.
- Gus Dur was forced to leave his position as a president by the parliament's impeachment in 2001. After that his deputy, Megawati officially became the fifth president of Indonesia.

3. Megawati Soekarnoputri (2001 – 2004)

Positive achievements:

- She had quite tough but achieved some positive development in order to bring back the country's stability, especially in the settlement of some horizontal conflicts in the regions.
- Indonesia's macro economy was quite good and stable under her government.
- No one can deny that under her leadership, Megawati had successfully brought

Indonesia in conducting the first direct presidential election in September 2004.

Problems :

- Megawati's "silent is gold" attitude in many cases had given her a bad image and sometimes were contra productive. She was very rare to stand her point of view in any case in the country, therefore the people had never know what was her original thinking to overcome the problems.
- Her husband, Taufik Kiemas, is the man who is been accused by some of political figures (pro and contra – Mega) as the trouble maker in her government for corruption, collusion, nepotism (KKN issue).
- She had never taken any action to bring Soeharto into the court. Moreover she also had never given her attention to her fanatic supporters who were already being a victim on July 27th 1996 tragedy, and this causes the decreasing of sympathy of her own supporters.
- The terrorist attacks in some places such as Bali and Jakarta have also given a negative impact to the Megawati's leadership.

4. Susilo Bambang Yudhoyono or SBY (2004 – 2009)

In Indonesian history, Yudhoyono is the first president of Indonesia who was been

elected in the democratic way; which is elected in direct system. He is an interesting figure and quite surprising that he could win the election in September 2004. Firstly he is a former army's general, and secondly he is a new figure in the country that actually did not have any supporters in the grass roots. Is this mean that the majority of people in Indonesia do not care anymore about the military and civilian dichotomy? Or people started again to think that military could lead the country better than civilian? If it does, the history of the shifting from liberal democracy in 1950 to the guided democracy in 1959 until Pancasila democracy in 1966 will be repeated. The mountain of challenges and unfinished homework are waiting for Yudhoyono to solve. Will he bring Indonesia to the better era or the other way? It depends on his guts, integrity, and strong effort and of course people's support.

Mining Industry Condition:

For the mining sector, since year 2000 the investment in this sector has decreased sharply about 550.0 million US dollar which only half from the last three years; 1,922.6 million US dollar in 1997, 1,600.2 million US dollar in 1998 and 1,100.3 million US dollar in 1999 (Sangaji 2002). The further and detail discussion about the problem facing by mining industry in post-Soeharto's era will be discussed in Chapter

IV, but at this part the author only will be giving some idea about how each regime (under reformasi era) in their time have been issued series regulations which was contradictive one and another regarding the mining industry.

During the transition period from Habibie to Gus Dur, the government through the Department of Forestry had issued the Ordinance No. 41/1999 in 2000 about protected forest that at the end has banned 22 mining companies (mostly TNCs) to start the exploration in some areas. The national mining industry as the whole is facing difficulties and very complicated problems over the strong rejection of mining activity held in protected forest, which is strongly supported by environmental NGO groups and some parliament members (based on the Ordinance No. 41/1999).

The problem of the implementation of the Ordinance No. 41/1999 does not only emerge environmental issue, but moreover it also contains a juridical perspective and international arbitrage issue due to the fact that legally those 22 companies have got an approval from the Indonesian Government long before the Ordinance No. 41/1999 is issued through the CoW as the legal basis to explore in the areas which now are recognized as a protected forest (Tempo, April 1st 2004). Recently the debate upon this issue has become stronger when under Megawati's government on March 11th 2004 had issued the new Government Regulation No. 1/2004 (Perpu No. 1/2004) that allow

13 of those 22 mining companies to explore their concession area in protected forest. Until now, while this research is written, the dispute upon the controversial Government Regulation No. 1/2004 has not been settled yet.

The Megawati's supporters in parliament from PDIP faction and Golkar faction support this Perpu No. 1/2004 as the only tool to solve the deadlock on the mining issue regarding the exploration in the protected forest. The pro-Perpu No. 1/2004 group views that the definition and category of protected forest under the Ordinance No. 41/1999 is bias and the most important factor is that the 13 companies have got an approval from the previous government under the CoW and CCoW long before the Ordinance No. 41/1999 being issued (Wahju 2002). On the opposite side, the anti-Perpu No. 1/2004 group sees that the issuance of Perpu No. 1/2004 is not reasonable and they believe that the reason why Megawati's government issued this regulation is because the President was afraid of the international's pressure supported by the capitalist agents (Western countries). The PAN faction (Amien Rais' supporters) and PKS faction (Islamic group) are the elements who strongly opposed this Perpu No. 1/2004.

4.6 Regime Change and Mining

Based on the explanation above regarding the prevailing socio-political conditions

in Indonesia since 1949 till now; it shows that in terms of political orientation and policy, the country has undergone radical changes four times since achieving independence. The changes however merely reflect history repeating itself. Upon closer reflection one can say that the fundamental changes of Indonesia's socio-political configuration is exemplified by the two distinct systems. The parliamentary system depicted by multiple parties with the power on the legislative assembly (1949-1959 and 1998-now); and the presidential system represented by an authoritarian government with the president as the paramount figure (1959-1966 and 1966-1998). Moreover, these socio-political changes have affected the overall performance of Indonesia's economy as well as significant repercussions on the country's mining industry.

It has been proved that the authoritarian regimes (under Soekarno and Soeharto) often turn political monopoly into economic monopoly (Siegle, et al 2004: 5). This situation occurred because the actor who rules the system is centralized only in one figure, therefore only businesses and individuals closely tied to the elites or ruling party were able to acquire the licenses, permits, credit and other resources needed to succeed (Siegle, et al 2004: 5). When Indonesia was under the regimes of Soekarno and Soeharto; both governed the country in the same style with the central government

as the only main actor having absolute authority and assured of the total support of the military forces. In terms of economic orientation and foreign affairs policy however, the two leaders were on total opposite ends. The next question then is, so how did Indonesia fare under the federal system in 1949, and now under the decentralization system from 1998 to the present day? Are things better now than say during the authoritarian times?

It is also undeniable that the implementation of the federal system during the parliamentary democracy period directed Indonesia to a chaotic situation from 1950 until the middle of 1959. During this period the disintegration movements marked by armed rebellions exploded in many places almost consuming the entire country in violence. By analyzing carefully the state of Indonesia's condition after the Soeharto era from 1998 to now, the same chaotic situation it seems is occurring again just as it did back then; and that is the nation's disintegration and ethnocentrism sentiment (Tim Redaksi Kompas 1999b: 158, 201-202).

The separatist movements that have been discussed in previous paragraphs are representative of Indonesia's current problem which is actually just a repetition of what happened in the past. Indonesia's situation perhaps can be clarified in part by the perspective of political analysts' who claim that "premature" democratization in low

income countries is responsible for enabling opportunistic politicians to fan ethnic and regional resentments, even armed conflicts (Siegle, et al 2004: 62). According to this point of view the iron fist of autocratic leaders can keep a fractious society together, to put it succinctly the authoritarian Indonesian government was necessary to keep the country's integrity intact as well as securing political and economic stabilization.

The most imperative factor between Indonesia under the presidential system and parliamentary system is the number of the key actors or decision makers. Whereas the former system had power concentrated within a very limited group of elites or even only one actor, the latter in contrast has too many actors in power.

If we refer to the definition of politics as a matter of decision making and policy as outlined in Chapter 3, the positive impact of the authoritarian government compared with the parliamentary system is on the timeline efficiency of decision making process. Decisions and results were procured much faster in the authoritarian system making the implementation on the operational level more effective and efficient. This is a direct result of a having a small number of decision makers who are usually of the same mind and therefore share the same voice and interests. The parliamentary system on the other hand, does not have the same decisive capability. The decision making process to set up policies is a lengthy activity full of controversial disputes as each

political party endeavors to promote and accommodate their respective agendas. Compared with Soeharto's era, nowadays there are many government policies and regulations which are not fully functional at the implementation level. This is typical especially in the regions as many of the policies can be suddenly reviewed or cancelled by the parliament; a similar situation transpired in the 1950s.

In the context of the mining industry, difficult to say as maybe especially in the era of Reformasi the fact remains that during the Soeharto regime the national mining industry showed very positive conditions as evident by its dramatic growth and development, especially during 1980's and early 1990s. This was because the central government had indisputable power to implement and enforce all regulations and policies made. This resolute stance guaranteed the regional administrators compliance with the policies relegated by the central government (Kiroyan 2000b). Environmentalists argue that many important issues such as environmental impact awareness and other related concerns were overlooked and ignored by the Soeharto administration. This was due to the fact that the government's main interest was "economic development" and considered it the nation's top precedence at the time.

Refer back to Chapter 1, which mentioned briefly the raising of environmental sensitivity. By the mid 1990s NGO's had solidified their role on the mining issue, after

the much publicized Freeport case in West Papua that came to a head in 1995. That event enhanced the public's awareness and perspective concerning the negative impacts of mining activities in the regions, especially with regards to the regime and TNCs. This cooperation came under the scrutiny and was labeled as the exploitation of the local's wealth by Jakarta and TNCs. In addition to environmental apprehensions the involvement of security forces (military and police) in the mining industry also became an issue of concern.

The wave of anti-mining movements in the country which began around 1999 has continued to gain momentum. Since the implementation of regional autonomy, many people have started to promulgate the mining problem to the public. These sentiments include demands for the industry to accept responsibility for the environmental degradation as well as due recognition of the rights of local people which were disregarded during the 32 years of the Soeharto's administration.

This social change in Indonesia cannot be separated from the New Social Movement (NSM) in the entire world where the issues of human rights, environmental concerns, gender equality and equity plus other non-economic factors have become major international concerns. Because of this global movement, it is most likely that they too will have a significant impact on the country. The Indonesian government

recently has been endeavoring to accommodate the aspirations of the environmental and human rights groups by reviewing the current mining regulations and formulating a new draft of laws and guidelines that places a strong emphasis on the awareness as well as the importance of environmental protection.

In the closing of this chapter, it can be seen that the fluctuation of mining industry development in Indonesia can be attributed to the prevailing socio-political conditions in the country from time to time. Therefore prior to launching into the analysis of the core problems which is the research's main objective as will be discussed in the following chapters, the author hopes that the link between the changes in the Indonesian socio-political situation and its impacts on the current mining conditions has been made evident. The changes of actors, perception of the public and government orientations, are crucial factors that have contributed to the stability of the national mining industry.

CHAPTER 5 MINING UNDER REGIONAL AUTONOMY

5.1 Indonesian Mining Industry Condition: 2000-2005

Since the 1997 Asian monetary crisis that also caused major chaos to the economic and businesses in Indonesia, mining sector remains a consistent and significant contributor to Indonesia's domestic income. According to PricewaterhouseCoopers (2004), mining's contribution to the GDP had been a constant average of 3.5 percent during the period of 1999-2003. This contribution merely accounts for the cash contribution and surely underestimated the fact that mining may have created multiplier effects to the local area development, including improvement in local social welfare. The social welfare does not only include personal wealth accumulation for the local community, but also social wealth through the construction of social overhead capitals such as roads, telecommunication, water supply, electricity.

The presence of local vendors, shops, market, any other forms of commercial activities further confirms the development impact of mining activities (LPEM-UI, 2005). If one is to account for the most significant benefit of having mining activities in the local area, most likely it would be the employment and business opportunity.

PricewaterhouseCoopers (2004) foresees the future expansion of employment opportunity stemming from expansion of giant mining corporations' operation to cover wider area.

The main issue that becomes the focus of this chapter is the fact that despite the long list of benefits that accrue to the local community, mining sector has never been free from attack by various parties, claiming that mining brings adverse impact to the environment, and some even see mining as draining local economic potential. As was previously mentioned, mining is an important sector in Indonesia, and thus the controversy over its impact has been a major issue in Indonesia. It is important that a neutral stand is taken to address the problem objectively as mining indeed is inseparable from political conflict of interests that may distort the justification of arguments over the pro or contra parties. However, the author hypothesizes that the appropriate solution is neither the closure of the mining activities nor a status quo rather it involves mitigation of potential risks.

This chapter attempt to address this cliché issue through a balanced perspective, taking into account the multi-dimension benefits and adverse impacts of mining, and to incorporate the changes in policy and regulatory environment in the analysis, hence

allowing a thorough analysis of the governance response to both parties' claim and to arrive at possible recommendations for policy makers.

5.2 Potential of the Indonesian Mining Sector

According to the PricewaterhouseCoopers report and the paper published by the Institute for Economic and Social Research – University of Indonesia (LPEM-UI, 2005), the actual average profitability of the Indonesian mining industry compares well with other competitor countries; which has the Return on Shareholder's Fund (ROSF) of all mines 18.5% in 2003 and in the average for last ten years is around 13.2% while the ROSF for thirty world high class mining companies is 10.5% in 2003 (PricewaterhouseCoopers, 2004). One example is the comparison between the ROSF in Indonesia and Australia that may be seen at table 5.2.1:

	1998	1999	2000	2001	2002	2003
Indonesia	13.1%	13.3%	8.1%	11.1%	15.6%	18.5%
Australia	3.7%	4.0%	13.9%	12.9%	7.9%	7.4%

Table 5.2.1: ROSF Rate Comparison between Indonesia and Australia

(Source: PricewaterhouseCoopers 2004)

The above table shows on how actually in term of ROSF, despite the monetary crisis period since 1998, Indonesia still has a high profitability even compares to the

developed country like Australia. In year 1998 and 1999 the Indonesia's ROSF rate is about 3 times higher than Australia's ROSF rate, while in 2002 and 2003 in average is about 2 times of Australia's rate. Only in year 2000 and 2001 the Indonesia's ROSF rate are less than Australia's even though it is not too significant. This data indicates that even during the crisis period, Indonesia is still might be seen as an attractive and high potential destination for mining investment which can hold and provide its mining industry competitive advantage in order to get the investors. However, ironically the mining condition in past almost 7 years since 2000 is seriously suffered due to some complex problems that will be explained later in the next part.

Indonesia contains a number of different mineral products, but its main productions for the last twenty to thirty years are coal, copper, tin, gold and nickel. These five minerals have been providing significant contributions to the country's income for a long period, as can be identified at table 5.2.2 about mineral production:

		1998	1999	2000	2001	2002	2003
Coal	'000 t	61,931	73,777	77,040	92,540	103,372	114,491
Copper	M lb	1,427	1,690	2,157	2,258	2,497	2,165
Gold	'000 t	3,641	3,929	3,802	4,856	4,326	4,389
Nickel	M lb	96	120	141	161	151	174
Tin	'000 t	54	50	47	54	67	65

Table 5.2.2: Indonesian Main Minerals Production

(Source: PricewaterhouseCoopers, 2004)

The above table shows rather consistent figures for all the minerals except coal. Coal has been experiencing consistent growth in production since 1998 to 2003 while the other minerals have not been experiencing significant growth starting from the fiscal year 2000. Gold may be another exception with a rather significant increase from 2000 to 2001 however the figure went down to 4,326 and rose only slightly to 4,389 in 2003. For coal and nickel, Japan is still the main consumer of these two mineral products besides some other countries like US, Australia and Taiwan (Hidayat, 2005). The fluctuation of the mining products is heavily depended on the market demand, the producers' business capacities (capital, technology, etc) and also the most important thing, the government policies and regulations on the exploration and exploitation procedures (Samosir, 2005). Some expertise mentioned that actually the productivity on those products still can be maximized, however due to some constraints by laws so the idle capacity is still quite high (Samosir, 2005).

Regarding the mineral potential (deposit), Indonesia's position is still relatively high in the world as we can see at figure 5.2.1 below:

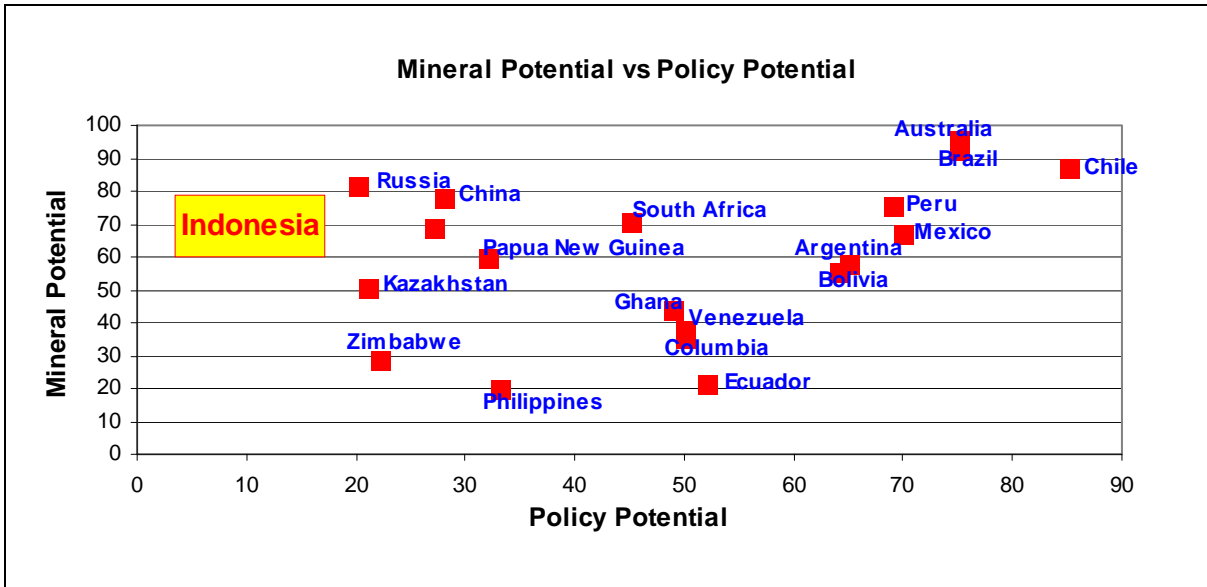


Figure 5.2.1: Mineral Potential and Policy Potential Index

(Source: LPEM-UI, 2005)

The **Policy Potential Index** is a composite index that measures effects on exploration of government policies including taxation, environment regulations, duplication and administration of regulations, native land claims, protected areas, infrastructure, labor and socio-economic agreement as well as political stability (Wahju, 2002).

The **Mineral Potential Index** rates a region’s attractiveness based on the company’s perceptions of geology by assuming no land use restrictions and any mine would operate to industry “best practice” standard (Wahju, 2002).

If we observe the above table, we can see how Indonesia is still amongst the countries with the highest mineral potential. However, the policy potential is considerably low, indicating the lack of support in the development policy of the nation.

If the two indicators are to be weighed together, Indonesia is far less attractive than countries like Brazil, Australia, Chile, Peru, Mexico, Argentina and Bolivia. This is indeed contradictory to the fact that Indonesia's mining sector has been a significant contributor to the economic growth and has also been a consistent growth sector compared to the other sectors that are prone to industrial downfalls which will be discussed later.

5.3 The Mining Industry's Contribution to National Development

In terms of capital inflows for the national economic development and workforces' absorption, the mining industry's contribution to the Indonesian economy and national development is highly significant. Even during the crisis since in the middle 1997 until 2003, this industry still could constantly give positive contributions as can be summarized in table 5.3.1:

Rp – Billions	1998	1999	2000	2001	2002	2003
Employee Compensation (exl. Expatriates)	545	846	1,080	1,074	1,489	2,475
Purchases from Domestic Suppliers	3,253	3,688	4,790	4,304	6,627	7,153
Government Revenue	6,588	6,798	6,863	8,569	8,587	9,306
Dividends paid to Indonesian shareholders	203	298	647	338	411	329
Interest paid to Indonesian Companies/Banks	875	294	259	264	473	281
Total Contribution	11,463	11,924	13,641	14,549	17,586	19,545

Table 5.3.1: Contribution to Indonesian Economy

(Source: PricewaterhouseCoopers, 2004)

Mining has also made significant contributions to other economic sectors, which is further elaborated in the above table. Employee compensation and purchases from domestic suppliers are important injections to the local economy, which if followed by a multiplier effect, would create significant impact to the local economy. Both these important sectors have received a consistently growing contribution from the mining sector from 1998 to 2003. Dividends and interests fluctuate more compared to the employment compensation and purchases from domestic suppliers, which can be explained from the changes in capital structure and the company policy on dividend distribution and re-investments. In total, the contribution of mining to the Indonesian

economy has shown a consistent growth from 1998 to 2003. This consistent growth proves that mining industry is one of the business sectors in the country that can still survive even during the crisis, while some industries, especially the finance sector as well as banking which heavily had cost the government expenses due to the government's bank restructuring program under Indonesia Bank Restructuring Agency (IBRA) in 1998 – 2003. Moreover, as the impacts of this restructuring program, a new mass unemployment has occurred because of the liquidation of 16 commercial banks at that time (Samosir, 2005). By look at this fact, it might be said that when some sectors were making capital lost and unemployment, the mining sector was still creating capital inflows with the consistent growth and could hold its labor forces' absorption.

Rp – Billions	1998	1999	2000	2001	2002	2003
Employee Training	113	119	135	108	100	164
Regional & Community Development	238	211	270	279	464	604
Charitable Donations & Contributions to Not-For-Profit Foundations	41	44	80	40	68	59
U\$ - Millions						
Research & Development	1,330	1,336	749	252	236	1,046
Expenditure on Reclamation, Mine Closure & Environment Control	99,688	62,426	87,950	74,766	79,763	83,607
Net Increase in Accumulated Provision/Reserve for Reclamation & Mine Closure	9,863	21,503	12,260	21,240	17,971	44,592

Table 5.3.2: Expenditures on Public Interest

(Source: PricewaterhouseCoopers, 2004)

Mining companies have also been spending significant amounts toward developmental activities that are positively contributing to the public interests. Regional and community development has seen a sharp increase from 238 in 1998 to 604 in 2003. Employee training and charitable donation fluctuates around 110 and 50 respectively. Spending on research and development has seen another sharp increase after a significant downtrend in 2000 to 2002. Environment conservation is also a major concern for the companies as shown from the consistent spending in expenditure on reclamation, mine closure and environment control. The accumulation in reserves for

reclamation and mine closure has increased significantly from less than 10,000 in 1998 to more than 40,000 in 2003. This increasing amount is linear with the number of mining areas closure due to end of their production period based on the contracts (10 – 30 years). One that should be underlined regarding the above data is that the community development program is a grand (excluded from taxes and other obligations) from the companies as the realization of their good will to give tangible and direct benefits to the local community as the community development program is highly managed by both parties, companies and the local people, with a very limited portion of government’s involvement (Hidayat, 2005). By this intensive and direct interaction between the companies and the locals, so the community development program becomes more effective in order to support the local development and welfare based on the locals’ demand and aspirations (Samosir, 2005).

	1998	1999	2000	2001	2002	2003
Indonesian Employees	33,215	36,887	32,189	32,909	33,102	33,112
Expatriates Employees	716	990	598	532	501	447
Total Direct Employees	33,931	37,877	32,787	33,441	33,603	33,559
Representing % of Employees	97.9%	97.4%	98.2%	98.4%	98.5%	98.7%

Table 5.3.3: Direct Employment

(Source: PricewaterhouseCoopers, 2004)

In terms of employment, the figure remains consistent around 33,000, in which the number of expatriates varies greatly showing the short term nature of the appointments. This figure indicates insignificant or even no employee lay offs. The number of Indonesian employees is far greater than the number of expatriates, and the appointment of Indonesian employees are based at long term contracts. One important factor that has made mining sector can hold the number of employees relatively stable (even during the first year of crisis) is because of the industry's characteristic itself where most of them are long term investment projects (10 – 30 years). Another crucial factor is that mining is also a labor incentive industry which needs mass of people to be placed in it. This means that every new exploration (new project) creates new job opportunities in large scale. Based on the expertise' experiences, at least one medium mining project might absorb at least 200 people (Samosir, 2005). With regards to these facts, it is undeniable that mining sector is contributing a very significant positive impact in terms of job employment.

5.4 The Problems: Dramatic Decrease in Investment in the Mining Industry

The mining industry had suffered a setback during 2000 – 2003 due to a

combination of declining metal prices and uncertainty surrounding the effects of regional autonomy (PricewaterhouseCoopers, 2004; Purnomo, 2005). These uncertainties continue annually till 2005 and have affected the level of new investments in the industry at a degree. Minister Purnomo Yusgiantoro states a number of uncertainties refer to regional autonomy, new mining legislation and the most crucial factor; forestry law examined under Law Number 41/1999 that has banned 22 mining companies' operations so far (Purnomo, 2005).

The investment spending on exploration and new mines has now been very low for several years. This investment activity will not return to the previous levels until certainty over long term investment conditions are completely restored (PricewaterhouseCoopers, 2003). The declining of new mining investments might be evident at table 5.4.1:

U\$ - Millions	1998	1999	2000	2001	2002	2003
Expenditures on New Area	27	18	11	7	7	7

Exploration						
Exploration & Feasibility	69	60	56	31	12	22
Development	192	367	191	73	107	31
Fixed Assets	1,879	963	657	167	237	326
Total Investment	2,168	1,408	915	278	363	386

Table 5.4.1: Investment Fluctuation

(Source: PricewaterhouseCoopers, 2004)

Total investments however decreases significantly from 2,168 to 386, largely due to the decrease in fixed assets that can be a result of decreasing expenditures on exploration. This may be a result of the non conducive investment climate and the unsupportive policy environment, because the mineral potential in Indonesia is still very high. Furthermore, in 2002, exploration companies globally rated Indonesia poorly as a place to develop mines despite good mineral prospects and potential (PricewaterhouseCoopers, 2003). This is a very crucial issue for the mining industry's continuity. It is important to note that this industry very much depends on the exploration, discovery and development of new areas. Exploration period takes around at least ten years before deciding whether the area has potential or not, therefore a number of laws and regulations are very much needed to guarantee the mining processes activities in the long run (PricewaterhouseCoopers, 2004).

For additional, many business practitioners view that the chaotic of mining

industry would not only impact this industry, but moreover it can disturb the foreign investment climate as a whole. The case of Nike in 2002 (Kompas, August 20th 2002), Sony in 2003 (The Jakarta Post, March 26th 2003) and Reebok in 2004 (Tempo, March 18th 2004) which had created more than 11,000 of jobless are the clear examples that should be taken as a good lesson by the Indonesian government and all policy makers in the parliament.

5.5 Anti-mining Industry Perspectives

In the opposite side it is also undeniable that some serious problems as an impact of the mining activities have been occurred. In order to conduct a balance analysis; based on the interviews, position papers, research papers, and other report documents from environmental NGOs; there are several serious problems caused by the mining activities in the regions as follows (Walhi, 2003; Sangaji, 2002):

- a. Environmental damaging. Extractive industries are not sustainable because they are highly dependent on the exploitation of non-renewable resources. The damaging cost is bigger than the benefits to the people, which at the end the classical environment destructions such as; land (topsoil) pollution, the lost of forests, water pollution and air pollution always occur and have eradicated the local people's

traditional living hoods systematically. Table 5.5.1 shows some evidences which are proving that the tailings in some big mining project areas have made a very danger impact by creating a high concentration of cyanide in the rivers as the impact of the gold extraction process in the processing plant.

#	Company	Location	Environmental Destruction Problems
1.	PT. Freeport Indonesia (FI)	West Papua	<ul style="list-style-type: none"> ● The Grasberg Mountain will be turned into a hole 2.5 km in diameter and 700 m deep. The company dumps 520,000 tons of waste rock every day into two valleys adjacent to the mine site. It is predicted that the end of the Grasberg open pit mining operation in 2014, for billion tons of waste rock will have been dumped into to two valleys. In the year 2000, the amount of tailings dumped into the Aghawagon River was approximately 190,000 tons per day. ● Several big stock pile failures already prove that the dumping operation in that area is not safe. The last big incident in May 2000 caused four deaths. ● The forming of Acid Rock Drainage (ARD) has caused the release of heavy metals like aluminum, cadmium and chromium into the environment. ● The corporation also uses a lake (with an area of 5.5 km x 2.0 km) as a waste rock dumping site. ● Satellite analysis by WALHI has discovered that total land area that has been contaminated by the tailings cover 35,820 hectares, which is already beyond the company's estimation of 31,800 hectares as mentioned in its Environmental Impact Assessment (EIA). The total sea area that has been contaminated by tailings covers 84,158 hectares. The tailing dispersion has reached as far out as 6 km from the seashore downstream from the Kamona River, and 10 km away from the seashore downstream from the west Ajkwa River. The images also show that the tailings have contaminated the Lorentz National Park trough the Mawati River and Otokwa River. The Lorentz National Park is a UNESCO World Heritage Site.
2.	PT. Kaltim Prima Coal (KPC)	East Kalimantan	<ul style="list-style-type: none"> ● Since 1990 the community has complained that the water quality of the Sangatta River has been worsening. The Sangatta River is

			<p>clogged with used to neutralize acidity. The people are no longer able to fish in the Sangatta.</p> <ul style="list-style-type: none"> ● The exploitation of the deposit in South Pinang Dome area will create huge impacts on the flow of the Murung River, Kenyamukan River and Melawan River. The Murung River will disappear altogether while some small tributaries from the Kenyamukan and Melawan Rivers will be cut off.
3.	PT. Kelian Equatorial Mining (KEM)	East Kalimantan	<ul style="list-style-type: none"> ● To create a tailings dump site, KEM built a 50 meter high dump in south west part of the Namuk valley, which has severely damaged the Namuk valley. By the end of its operation, KEM will have dumped over 100 million tones of waste rock into the environment. ● The tailings consist of 49% solids, containing among other things, carbonate compounds, copper (Cu), lead (Pb), mercury (Hg), zinc (Zn) and cyanide (CN). Although it has a high content of solids, the corporation categorizes tailings as waste water. According to an Indonesian regulation, dumping solid waste in water bodies prohibited. Because of this, all mining operations categorize tailings as liquid/waste water. ● When the tailings mix with rainwater it causes Acid Rock Drainage (ARD) which contains heavy metals that have leached from the rock. ARD can infiltrate and contaminate the groundwater system. During nine years of its operation, KEM does not have any data regarding the potential contamination of the groundwater system. ● The tailings also contain a high concentration of cyanide. The cyanide comes from the gold extraction process in the processing plant. The company does not treat the tailings to remove the cyanide, assuming that the cyanide will be broken down by the sunlight. Walhi do not believe there is adequate scientific evidence showing that the cyanide is totally broken down using this method. ● According to a Government regulation (Regulation PP No.18 1999 and PP No.85 1999 on Toxic and Hazardous B3 Waste Management), waste that is reactive, like cyanide or cyanide-contained compounds, is categorized as hazardous/toxic waste and needs special treatment. We believe that this dumping method contravenes this regulation.
4.	PT. Citra Palu	Central Sulawesi	<ul style="list-style-type: none"> ● According to the local communities, general-survey activities were carried out by CPM

	Mineral (CPM)		<p>secretly. So were the exploration activities. The public only found about the provincial parliament. In the hearing, CPM asked the parliament to shift the boundary of the Poboya Forest Park so that CPM could operate there.</p> <ul style="list-style-type: none"> ● The New State Act No.41/1999 on Forestry has become a huge issue for mining corporations as one of its clauses mentions very clearly that open cast mining is prohibited in conservation areas. Walhi is concerned that CPM-Rio Tinto and 149 other corporations have been attempting to lobby the government and the parliament very hard to change the law, or change the status of the conservation forest into production forest. ● According to the State Act No.5/1990, The Forest Park area has functions for the conservation of natural flora and fauna, endemic and non-endemic, and also has functions for research, education, training, and recreation. It is very clear that it does not mention a function for any mining operations. Besides that it is also clearly stated in the Act that: <i>“Everybody is prohibited from undertaking activities that are not in the line with the functions of the zone of use, and other zone of the national park, forest park, and nature park.”</i> WALHI is concerned that CPM-Rio Tinto’s operation in the forest park may have contravened the law.
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Table 5.5.1: Environment Destructions by TNCs in Indonesia

(Source: Walhi 2003)

b. The neo-colonialism process by Transnational Corporations (TNCs). Economic globalization has made third world countries as the sources of raw materials to be supplied for the developed countries. In case of Indonesia, TNCs owned around 90% shares of total mining projects in the country (see table 5.5.2). By looking at this composition, so it might be said that actually Indonesia only receives not more than 10% from the total profit of this sector. This issue is the main factor that finally has triggered and idea to review and cancel all the existing contracts in order to

increase the rate of royalties, taxes and other retributions.

TNCs	Subsidiary Companies in Indonesia and % of TNCs' Ownership	Product	Location
Rio Tinto Ltd (Australia)	<ul style="list-style-type: none"> - PT. Kelian Equatorial Mining (90%) - PT. Kaltim Prima Coal (50%) - PT. Danum Bukit Minerals (90%) - PT. Danum Kelian Minerals (95%) - PT. Uli Mandar Minerals (95%) - PT. Citra Palu Minerals (90%) - PT. Mitra Sumbawa Minerals (90%) - PT. Rikit Alas Minerals (90%) 	<ul style="list-style-type: none"> - Gold & Silver - Coal - Gold - Gold - Coal & Gold - Gold - Metal - Metal 	<ul style="list-style-type: none"> - East Kalimantan - East Kalimantan - East Kalimantan - East Kalimantan - Central & South Sulawesi - Central Sulawesi - West Nusa Tenggara - Aceh
Broken Hill Proprietary Company Ltd (USA)	<ul style="list-style-type: none"> - PT. Arutmin Indonesia (80%) - PT. BHP Sipirok Minerals (95%) - PT. BHP Sumba Minerals - PT. Gag Nickel (75%) - PT. Kalteng Coal (99%) - PT. Pari Coal (99%) - PT. Sumber Barito Coal - PT. BHP Kendilo Coal Indonesia (99.07%) 	<ul style="list-style-type: none"> - Coal - Gold & Copper - Gold - Nickel - Coal - Coal - Coal - Coal 	<ul style="list-style-type: none"> - South Kalimantan - North Sumatra - East Nusa Tenggara - Papua - Central Kalimantan - Central Kalimantan - Central Kalimantan - East Kalimantan
Newmont Mining Corporation (USA)	<ul style="list-style-type: none"> - PT. Newmont Nusa Tenggara (45%) - PT. Newmont Minahasa Raya (80%) - PT. Newmont Mongondow Mining (80%) 	<ul style="list-style-type: none"> - Gold - Gold - Gold 	<ul style="list-style-type: none"> - West Nusa Tenggara - North Sulawesi - North Sulawesi
Newcrest Mining Ltd (Australia)	<ul style="list-style-type: none"> - PT. Newcrest Nusa Sulawesi (90%) - PT. Nusa Halmahera Minerals (82.5%) - PT. Newcrest Sumbawa Raya (90%) 	<ul style="list-style-type: none"> - Gold - Gold - Gold & Copper 	<ul style="list-style-type: none"> - North & Centra Sulawesi, Gorontalo - Maluku & North Maluku - West Nusa Tenggara
Inco Ltd (Canada)	<ul style="list-style-type: none"> - PT. Inco (58%) 	<ul style="list-style-type: none"> - Nickel 	<ul style="list-style-type: none"> - South, Southeast & Central Sulawesi

	- PT. Ingold Maluku Satu (85%) - PT. Ingold Sumatra Satu (99%)	- Metal - Gold & Metal	- Maluku - West Sumatra & Jambi
Freeport Mc Moran Copper & Gold Inc (USA)	- PT. Ingold Antares (88%) - PT. Freeport Indonesia (81.28%) - PT. Irja Eastern Minerals (90%) - PT. Iriana Mutiara Mining (80%)	- Gold & Metal - Copper, Gold & Silver - Gold - Nickel	- West Papua - West Papua - West Papua - West Papua

Table 5.5.2: TNCs' Products and Locations in Indonesia 2001

(Source: Sangaji 2002)

- c. Human rights violations to the local people. Exploitation has occurred on a massive scale and most of the time has involved violence, conducted by the state and corporations' security personnel. Freeport is the company that has been facing a very serious problem in regards with the human rights issue in West Papua (Leith, 2003). The "colonization" of local people by the collaboration of the company as a profit seeker, the central government as a ruler who has political power to form policies and regulations and the military forces as a "sheriff" in many of the mining areas is very obvious (Walhi, 2003).
- d. TNCs are only looking for a high profit for themselves without paying any attention to the local people's living. The sector is dominated by only a few big TNCs, some whom have bigger revenues than the country itself. TNCs are devastating the lives of millions of people while at the same time maximizing their profits. Tax and fiscal contributions from the industry can never justify the

environmental, poverty and human right damages. Furthermore the industry only contributes 3.5% to Indonesian Gross Domestic Product.

- e. The ignorance and elimination of local traditional customs by TNCs. In many cases, the TNCs' existence is giving a very negative impact to the local traditional values and customs. Many of the local people have lost their traditional lands because of the pressure and intimidation by the TNCs collaborated with the government apparatuses (Walhi, 2003).
- f. Land dispute settlement by using the armed forces (army and police). It is common knowledge that in order to facilitate the exploitation by TNCs, they maintain close relationship with the power elites in the countries where they operate. Cases like Freeport in Timika, Inco in Soroako, Newmont in Sumbawa and KPC in Sangatta are the examples of how the elites of the country are very much supporting them in term of licensing, regulation and security (Walhi, 2003).

With regard to those problems above, the anti-mining people offers a sense of resolution to be following up that are strongly proposed by the environmental NGOs to the government of Indonesia regarding the mining issue as follows (Walhi, 2003; Sangaji, 2002):

- a. A moratorium on new mining operations in Indonesia and a comprehensive review of the government's policy on extractive industries in Indonesia, including the amendment of Law Number 11/1967 as the main cause of the national environment damage.
- b. An independent inspection team to evaluate all mining operations in Indonesia, especially regarding their environmental, social and human rights records.
- c. Clean-up, rehabilitation and restoration of mine sites.
- d. A renegotiation of all mining contracts of work already signed by the government and foreign investors, involving multi stakeholders with the principle of transparency and fairness.

5.6 The Impact of Regional Autonomy on the Mining Industry

Ever since regional autonomy or decentralization was implemented in January 2001 through Law Number 22/1999 and Law Number 25/1999, Indonesia has entered a new era in which certain powers have shifted from the central government to regional administration. Both laws give regions greater independence to manage their respective economies, natural resources and political institutions (Tim Redaksi Kompas, 1999). One of the areas of responsibility, which has been transferred to the

regions, is powers and responsibilities over mining affairs. As with several other areas of responsibility under Law No. 22/1999, the powers and responsibilities for mining were transferred to the regions without the adequate mechanisms in place, including skilled human resources and government officials and educated and experienced community leaders in mining and related fiscal affairs (Brojonegoro & Asanuma, 2003). Similarly, members of the private sector do not sustain the adequate knowledge and skills to work with their 'new' partners in the regional autonomy framework. Finally, Law No. 22/1999 does not adequately provide the resolution of conflicts between citizens, regional governments and the private sector, among regional governments themselves, or between the central and regional governments.

In the reality in field, since regional autonomy has been implementing for about almost six years, some of the problems has been facing by the central government (Jakarta), private sectors (local and foreign businessmen) and foreign investors (PricewaterhouseCoopers, 2003). If we read all the news in all Indonesian media (TV, newspaper, radio, etc) since under this new system, the conflict between the people in local grass root and the companies (especially foreign private companies) were happened in almost every region in Indonesia. Furthermore one of the favorite target issues of this uncertain condition is mining companies, especially the giant

multinational mining companies. Anti – mining company mass demonstrations, blocking the mining companies' operational area, violence, etc are the daily news in Indonesia recently. And when it starts to talk about the solution, no parties could give an obvious and good formula to solve the problem, because everyone is just wants to save their own interest.

In general, Abdurahman Wahid (Gus Dur), former Indonesian president 1999 - 2001, has said that the new system has triggered some of problems because it has not been set up properly in regard with the rapid political changing right after the step back of Soeharto in May 1998 (reformasi movement 1998), therefore there are still many of improper rule in this law (www.gusdur.net, August 14th 2002). One of the significant weakness of this law is there is no obvious and strict rule of the authority, responsibility and job description between the central government, provincial government and district government, kabupaten and municipality (Delivery Project, 2002). Therefore in the name of regional autonomy in many cases most of the local government seems like wants to totally free from Jakarta and made their own regulations in the area (Tim Redaksi Kompas, 1999).

President Megawati is a person who has a strong intention to revise the regional autonomy system at present (Kompas, December 1st 2003). But, again she faced many

of Governors and Bupatis / Mayors strongly against it. Moreover, the establishment of some new province or kabupaten in some cases has added more problems to business activities, especially for the mining sector.

Based on the interview with Roy Pakpahan, Regional Council of Indonesian Legal Aid and Human Rights Association or *Perhimpunan Bantuan Hukum dan Hak Azasi Manusia Indonesia* (PBHI) in Jakarta; He has identified that because of this improper law has been conducting, some of serious problem also have been raised such as:

- a. Decentralization of corruption from the central until at the local government level.
- b. If it is still not manage and solve properly could be created disintegration of the country. Example; the issue of Riau independent movement (Kompas, January 31st 2000)
- c. The uncertainty of law has been made some of big investors pull out from the country. Case like the pull out of Nike in 2002, Sony in 2003 and Reebok in 2004 from Indonesia are the obvious example of the uncertainty of law impact to the business activities.

Those kinds of problems above, again actually caused by some of factors below:

- a. The bias of the law itself has raised some of weak points because of the improper planning and set up of the law (Brojonegoro & Asanuma, 2003).

- b. The lack of human resources capability (quality and quantity) in the local level because in the past they never have an experience to do many kind of new things. Everything was centralized in Jakarta in the past (E. Rasyid, et all, 2003).

5.7 Summary of findings

After the Soeharto's era, the government of Indonesia is now finding itself in a very difficult position where it has to accommodate the interest of two extremely contradictive parties. The problems of the central government has been compounded the change of public opinion from tolerance to anti mining due to strong promotion by environmental groups and the press. This new frame of mentality has been encouraged by the euphoria of the new era of "democracy" as has been discussed in Chapter 4. Despite the change of attitude it is hard to deny the fact that the mining sector has and continues to contribute significantly to the country in terms of economic development and employment.

In terms of jurisdiction principles; the TNCs' reserve the right to operate and conduct activities in the areas which are guaranteed under CoW or the Coal Agreement, as per the contract they entered into with the central government under the Ordinance No. 1/1967. These vast areas of potential mining are owned by the TNCs has been

viewed by environmental NGOs and some economists as the “neo-colonialism” activities in the local area. It can not be denied that a number of TNCs have caused big problems in some local areas these include environmental destruction leading to loss of habitat for important ecosystems, human rights violations and land conflicts. These numerous negative aspects has created a very bad image for the industry causing people to worry and be concerned about the activities of mining companies.

Apart from the above mentioned issues, the overlapping of laws is another main factor that has driven the conflict between mining industry and forestry regulations to a deeper and complex level. All these different factors are harming the investment climate or potential of the country in the wider scope.

In regards with the research’s main theme, there are two main reasons why this research takes INCO as a particular case study. First, the company is the biggest player in Indonesian nickel mining industry. Since its operation in 1969 until now, INCO is the number one nickel producer in Indonesia. INCO’s contribution to the national and local economic development is significant, and that is why this mining project has been recognized by Indonesian government as national vital assets that should be prioritized.

Second is, considering its’ seizures, it is important to note that INCO has not been under sepia scrutiny like other mining operations, especially in comparison with

Freeport (Leith 2003). However, recently since year 2000 there were some movements in the grass roots in Soroako that brought an issue of anti-INCO. Is the movement purely coming from the dissatisfaction of grass roots or euphoria of democracy as it becomes a trend for the last six years after reformation movement in 1998? This is the main issues that will be analyzed in this research.

CHAPTER 6 INCO AND LOCAL STAKEHOLDERS

The purpose of this chapter is to give a detail picture of INCO and the local stakeholders in the mining circle areas as research objects. The historical background of INCO, its location, seizes, main activities, financial contributions and the summary of its community development program will be described in this chapter.

From the local stakeholders' side, this chapter will describe on the social-demography of mining circle areas and the historical background of Sorowako. In the final part of this chapter, the recent issues on INCO also will be described briefly.

6.1 PT International Nickel Indonesia (INCO)

Historical Background of INCO

PT. International Nickel Indonesia (INCO) began mineral exploration in Sorowako, South Sulawesi after the signing of a Contract of Work (CoW) on July 27th 1969 with the Government of Republic of Indonesia represented by Department of Mining (now Department of Energy and Mineral Resources).



Figure 6.1.1 Sulawesi Island

(Source: INCO External Relations 2002)

The mining concession area approved by the Indonesian Government under the 1969 CoW covers more than 218,528 hectares and spans three provinces. The following table shows the breakdown of INCO’s concession area and gives some idea of the massive scale:

Area	Hectares
South Sulawesi	118,387.45 (54.17%)
Central Sulawesi	36,635.36 (16.76%)
Southeast Sulawesi	63,506.18 (29.06%)

Table 6.1.1 INCO’s Concession Area

(Source: INCO’s Contract of Work 1969)

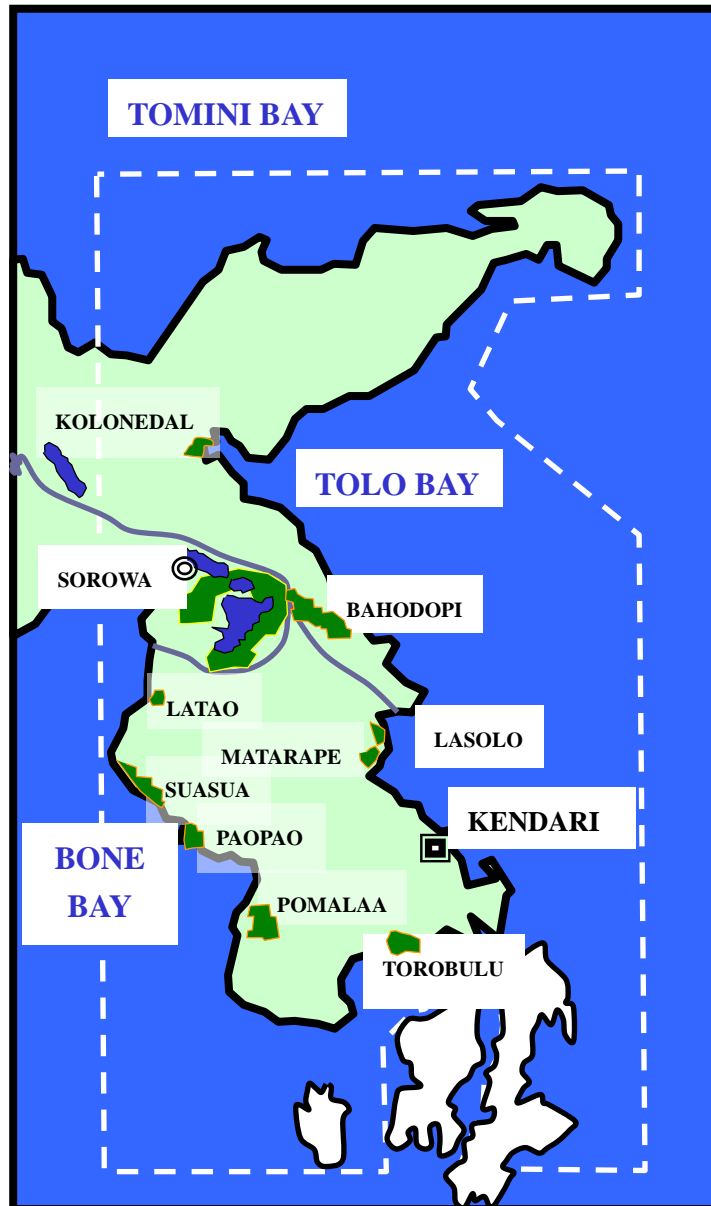


Figure 6.1.2: Concession Areas – green areas

(Source: INCO External Relations 2002)

INCO itself is a subsidiary company with International Nickel Pty. Ltd (INCO Limited) in Toronto, Canada as the major shareholder. INCO Limited is one of the world's premier metals mining companies and the world's second largest producer of

nickel. INCO Limited has a long history for more than 100 years in conducting nickel mining since its first exploration in Sudbury, Canada in 1883. INCO Limited world-class mineral reserve and resource base is among the best in the global nickel industry. INCO Limited is also an important producer of copper, cobalt and precious and platinum-group metals and a major producer of specialty nickel-based products. INCO Limited is a Canadian-based global company with operations and an extensive marketing network in over 40 countries. The Corporate Office is located in Toronto, Canada (www.inco.com/about).

The ownership structure of the Indonesian branch of INCO branch is shown in the table below:

Shareholder	Ownership
Inco Ltd, Canada	60.80%
Sumitomo Metal Mining Co, Japan	20.09%
Tokyo Nickel Company Ltd, Japan	0.54%
Nissho – Iwa Ltd, Japan	0.14%
Sumitomo Shoji Kaisha, Japan	0.14%
Mitsui & Co Ltd	0.36%
Public	17.89%

Table 6.1.2 INCO's shareholders

(Source: INCO's annual report 2004)

Nowadays, 99 percent of the company's 3000 permanent work forces are

Indonesians, including those who fill positions in the senior management level. Besides its own employees, there are around 2,500 people who work as INCO's vendors' work forces (INCO 2005).

For almost 37 years experience in managing mining activities in Sorowako, South Sulawesi, INCO has played some important roles for the regional development in the area and by 2004 had invested up to 2.3 billion US dollar (INCO 2005). On December 29th 1995 INCO signed the extended and modified second CoW with the Indonesian Government as the legal basis to continue its operation until December 28th 2025.

Main Activities

INCO's main activity is producing nickel in matte form, an intermediate product from lateritical ores. The entire production is sold in U.S. dollars under long term contracts for refining in Japan. As the biggest Indonesia's nickel importer, Japan's position is very important for the Indonesian nickel industry. In 2000, Indonesia had contributed 26.5 percent of Japan's total import of nickel in raw material with the total import value of US\$206.1 million, 65.8 percent of nickel in matte with the total import value of US\$607 million and 14.5 percent of ferronickel with the total import value of US\$82 million (Sangaji 2002).

INCO is systematically the most efficient nickel producer in the world, whose low cost operational system is achieved from the low cost hydroelectric power system that provides 80 percent of the electric energy required for the operation. The diagram below describes the flow of INCO's operational stages:

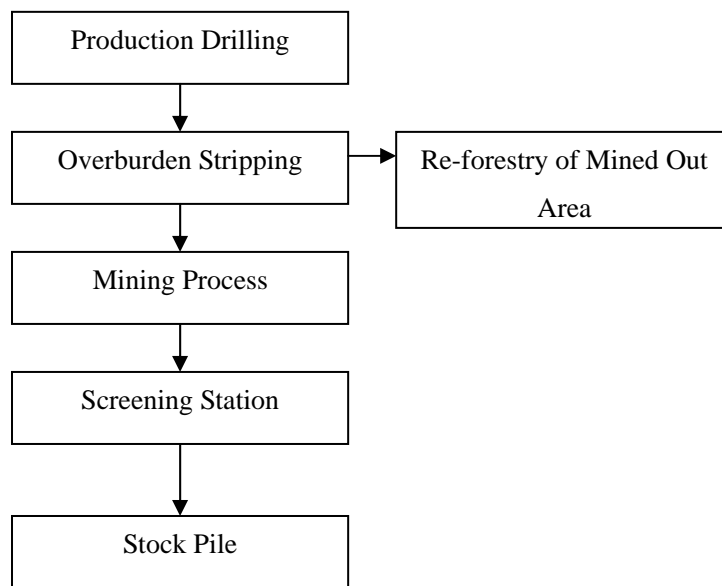


Figure 6.1.3 Mining Stages

(Source: INCO 2002)

6.2 INCO's Contribution to Regional Development

Despite of the debates and arguments on the impact of the regional autonomy system, the most significant and tangible benefit of the new system to the local level is the financial income. Law No. 25/1999 (and its revision Law No. 33/2004) regarding the fiscal balance between the central government and the local governments, state that

the local authority has a right to receive income from its natural resources from the mining sector through revenue sharing from both *Land Rent* and *Royalty*. Land rent is the company's annual payment to the central government regarding the number of hectares of the area that is being used as the mining concession. Royalty is the company's annual payment to the central government based on the type of mineral product found and explored in the concession area. The revenue sharing proportions of Land Rent and Royalty can be viewed in table 6.21. and 6.2.2 below:

DESCRIPTION	PROPORTION
Central Government	20%
Provincial Government	16%
Regency / Municipality Government	64%

Table 6.2.1 Proportion of income distribution from Land Rent

(Source: LPEM UI 2005)

DESCRIPTION	PROPORTION
Central Government	20%
Provincial (Producer) Government	16%
Regency/Municipality Government (Producer regency/municipality)	32%
Other Regency/Municipality*	32%

Table 6.2.2 Proportion of income distribution from Royalty

(Source: LPEM UI 2005)

*Note: Other Regency/Municipality refers to all Regencies/Municipalities within the producing province who are given equal shares of 32% of the revenue from royalties.

The report by Institute for Economic and Social Research of University of Indonesia (LPEM UI) on February 15th 2005 in the national seminar titled “*Tinjauan dan Manfaat Industri Tambang di Indonesia* (Overview on Indonesian Mining Industry)” in Jakarta has showed that INCO’s contribution to the national and regional income and development is undoubtedly still very significant, especially in regards to North Luwu regency’s (now East Luwu regency) financial income. The biggest contributions come from taxes and royalty payment. Furthermore, the non-taxed payments such as land rent and water levy are also quite valuable for the region. Besides those income contributions, the community development program conducted in the region also plays an important role in social development.

INCO’s contribution to the South Sulawesi province’s regional income during 2000 - 2002 reached 12 percent in average or about Rp. 3 trillion/year. The output multiplier effect of this sector is 1.79, income multiplier effect is 1.42 and 39 of labor force multiplier effect. Job opportunity created as the result of INCO’s activities was around 170,000 people, and furthermore the fiscal contribution to the national financial income during 1998-2002 was around Rp. 120 billion/year in average (LPEM UI, 2005). The financial contribution to the North Luwu regency can be shown in these tables as follows:

	Payment		
	2000	2001	2002
	In thousand U\$ (US\$ 000)		
Income Tax	0	2.529	0
Employee's Income Tax	2.646	2.169	2.594
Regional Gross Domestic Income	2.502	2.130	2.619
VAT	329	644	262
Land and Building Tax	0	0	0
Total	5.477	7.472	5.465

Table 6.2.3 Income from taxes

(Source: INCO 2003)

It seems to be quite difficult to give an explanation of specific features of the above table provided the short range term of data. Nevertheless, otherwise specifically indicated, INCO has maintained its obligation to pay the income tax especially employee's income tax and VAT. And we might see that the former is the most important revenue sources from INCO.

As an important source for financing the development, the tax revenue's role is central. This is to mention the contribution of INCO's for improving the regional gross domestic income after all.

	Payment		
	2000	2001	2002
	In Thousand U\$ (US\$ 000)		
Land Rent	219	219	219
Water Levy	1.690	2.221	4.110
Royalty	4.565	3.952	3.114
Other Royalty	13	23	17
Contribution*	867	951	908
Total	7.353	7.365	8.368

Table 6.2.4 Income from non-taxes

(Source: INCO 2005)

In terms of non-tax payment, the Water Levy is the most progressive revenue for the government, provided the increasing of its value for the period 2000-2002. In other side, the royalty payment might also one of the important sources from non-taxes revenue.

The land rent revenue is fixed for years while other royalty revenue contributed insignificantly. As for the contribution, the revenue could be fairly contributed from overall company non-tax obligation.

6.2.1 Community Development Program

As the realization of social responsible and moral obligation to the local stakeholders, community development programs have given significant contribution to the region. Village roads, bridges, electricity, fresh water system, public schools, hospitals and other infrastructures are tangible examples of such development contributions in Sorowako and the surrounding areas.

In the year 2004, INCO had contributed US\$1.3 million for community development program in three provinces: South Sulawesi, Central Sulawesi and Southeast Sulawesi (INCO 2004). This amount was allocated in funding 188 donations and 322 community development programs such as; public health service, electrical subsidy, and others. But mostly was used for the development of education programs (US\$ 610.000 in 2004) in the mentioned regions such as scholarships; started from high school until doctoral level, incentive allowance for teachers who were assigned in rural areas and research funding (INCO 2004).

On May 19th 2003, INCO was one of six mining companies honored with the Padma Award for excellence in the community development. This Award was presented by Megawati Soekarnoputri, the fifth President of the Republic of Indonesia (INCO 2003). The details of the community development program that has been done

by INCO will be discussed further in Chapter 7.

6.3 Mining Circle Areas

As mentioned previously this research has a certain focus to cover Sorowako (under the Nuha District) as the main focus (ring one) area of the research and another two mining ring districts, Towuti District and Malili District. In this part, the demographic summary of these three districts inside mining circle areas which also included as research objects will be described as this short and brief description as follows:



Figure 6.3.1 Mining Circle Areas

(Source: INCO External Relations 2002)

1. Nuha District

Nuha District covers 11 villages under its administration: Wasuponda, Blambano, Ledu-Ledu, Tabarang, Nickel, Magani, Sorowako, Nuha, Matang, Parumpanai, and Kawata. The population recorded was around 21,400 in 2003. The people of Nuha can be categorized and divided into several ethnic groups, where six of those are considered “indigenous”. The group of indigenous people is locally referred as ‘*to*’.

These ethnic groups are:

To Karonsi’e.

The Karonsi’e people now live in Sorowako and Wasuponda. Before, this indigenous group settled in the areas of Pae-Pae, Sinangko and Dongi. Some Karonsi’es also live in several areas located in Central and Southeast Sulawesi.

To Rahampu’u.

These people settle in Sorowako, especially in the surrounding areas in Lake Matano.

To Sorowako.

They now live in Nuha and Sorowako village. They used to settle in Sokooyo, Subario, Pontada, and neighboring villages.

To Taipa.

The Taipa used to live in Bure, but mostly now settle in Sorowako.

To Tambe'e.

The Tambe'e people live in the Landangi area in Parumpana village.

To Konde.

This group of people live in Kawata village and neighboring areas.

Besides the native people groups mentioned above, the demography of Nuha is colored by the presence of other minority ethnic groups; such as Bugis, Toraja, Makassar, Sumatran, and Javanese. These migrants have lived in the area for decades and assimilated with the indigenous people as well, including much inter-marriage.

2. Towuti District

The district of Towuti covers 11 villages under its administration: Wawondula, Langkea, Asuli, Baruga, Ilioka, Timamtu, Pekaloang, Takalimbo, Loeha, Bantilang, and Mahalona. The population of Towuti was around 3,202 in 2003 and the district is known for its forestry products and fish farms. Two main indigenous ethnic groups live in Towuti:

To Padoe.

These people used to live in Tabarano, Lioka, Wawondula, and Asuli, areas, but now the majority of Padoe reside in Wasuponda and Central Sulawesi.

To Routa.

This tribe lives in the areas of Matompi, Lamangka, Mahalona, Towuti, and neighboring villages.

Like Nuha district, there are several migrants from different ethnic groups in Towuti from Java, Bugis, Makassar, Toraja, Duri, Sumatra, Maluku (Mollucas) and Flores. These ethnic groups came to Towuti district between five and 21 years ago. Initially, they came to the district to farm.

3. Malili District

Among the three districts in mining circle areas, Malili is the biggest district with 13 villages under its administration. These villages are: Malili, Wewang Riu, Baruga, Balantang, Harapan, Pongkeru, Laskap, Puncak Indah, Ussu, Atue, Manurung, Tarabi, and Lawali. The population in Malili was approximately 19,850 in the year 2003.

There are two main ethnic groups in Malili district. One is the indigenous people of

Malili, known as Tokinadu people and the rest are mixes of different ethnic groups such as Bugis, Makassar, and Mandar. Moreover, there are also some migrants from outside Sulawesi who mostly came from Java, Bali, Lombok, and Flores and settled as a minority groups.

Malili district has been the main port for North Luwu. Export and import shipping always comes and goes through this area. People there make their living from salt-water fish and shrimp breeding, agriculture, and forest products. There was a community council called Bapepan in year 1999, but unfortunately broke up around 2001 when the establishment movement of East Luwu regency started.

By taking those three mining circle areas as research foci with Sorowako as a main focus area, the author will be picking up the perspectives of each stakeholder about INCO from each area. The term of key stakeholder in this part refers to the district administrations (*kecamatan*) and community councils (*komite masyarakat*).

6.4 Sorowako

Before the establishment of project in 1969, all Soroakans (known as Wawainian) households engaged in subsistence agricultural production. A few derived additional income from trading. This situation changed radically with the development of the

project, not only because of the new employment opportunities, but also because of the appropriation of the paddy field, which had been the mainstay of the village economy (Robinson 1986: 113). Changes in productivity pursuits of the indigenous Soroakans dealt with economic activities in the village.

Since the coming of the mining project the largest occupational category has consisted of those in INCO's permanent employment, or as employed by one of INCO's contractors. Sorowako became a 'company town' in that INCO provided the principal source of regular employment, and other job opportunities ultimately derived from its activities. The fortunes of citizens of Sorowako rose and fell with the fortunes of the company. However, for small parts of the villagers, all of them indigenous Soroakans, agricultural production still provided the principal of livelihood. The loss of paddy fields meant it was difficult for them to live exclusively by farming as the remaining available land was suitable only for slash and burn cultivation (Robinson 1986: 113).

The condition of agricultural production has been dramatically changed by the company's presence. These people were always seeking paid for work to make ends meet, as casual laborers for INCO and smaller contractor. The population of the village decreased from an estimated peak of 10,000 in 1976 (the height of the construction

The village was divided socially and geographically into two; INCO's Old Village (*Kampung Lama*), which roughly corresponded to the administrative division Village Association I (*Rukun Kampung 1*), and New Village (*Kampung Baru*), corresponding to Village Association 2 (*Rukun Kampung 2*). Old Village was the home of the approximately 1,000 indigenous Soroakans, where as New Village was, by and large, a settlement of immigrants (Robinson 1986; INCO 2004). The first newcomers (outsiders) had obtained permission to build there, in the early 1970s, on land the indigenous Soroakans had used for cultivation and pasture. The village school, the market (built by the village government in 1974), as well as all of the large stores, were located in New Village. A new school (constructed under the Inpres scheme) was built there, in 1980. By contrast, the company's Town Administration provided all these services to town site inhabitants, i.e., to half the work force only. Such discrimination established fundamental inequalities between categories of company employees in everyday experience and life changes.

The village underwent a transformation in 1977-78 with the implementation of a plan from the Provincial Government to reorder the settlement. In New Village, substandard houses were demolished. Many were bulldozed when their inhabitants refused to move voluntarily. A grid Structure was imposed by the construction of roads,

and permanent dwellings were built alongside them. Older houses were moved to conform to the new plan. Many of the houses were built end to end; one village resident complained that the main street looked more like a train than a village. Many of the original homes in Old Villages have been refurbished (with the aid of housing loans from the company) in order to conform to modern taste. From the late 1978, the village was electrified. The state electricity authority agreed to sell the power, which they received from the company's hydroelectric power plant on Larona River.

Prior to the establishment of the project, just under 1,000 indigenous Soroakans and a few Bugis settler by marriage had lived in the village. A dramatic transformation in the social composition of the population accompanied the subsequent increase in population. The project attracted mainly immigrants from province of South Sulawesi, in particular from Tana Toraja and Palopo.

In 1985 - 1990, INCO was facing a hard time. Nickel's demand was decreasing and the productivity was not able to support productive cost and labors (INCO 1992). But in 2000 – up to now is a golden time for INCO, as the nickel's demand is increasing, more and more immigrants from other province come to earn money (INCO 2005). Now Based on Company Statistics, it is 69 percent of Indigenous Sorokans are INCO's worker, and 32 percent of them are well educated (INCO 2005)

6.5 Recent Issues

The issue and problem over INCO's activity has likely risen since late 1999 after the *Reformasi* Movement and the end of the New Order in May 1998. Based on the research conducted by media monitoring (data updated from national top five newspapers since April 2000 – December 2005) and interviews with key players (September 2004 – December 2005), actually problems faced by INCO can be mapped in three different levels:

- National issue; which raised when the national parliament (DPR) under commission VIII in 2000 demanded the central government and INCO to make a review over their agreement under the Contract of Work (CoW) in 1969 and the extended CoW in 1995. The parliament has come to the point of view and opinion that those two CoWs are not relevant anymore today regarding the spirit of Reformasi and the new system of regional autonomy under Law No. 22/1999 (Kompas, April 12th 2000).
- Provincial level issue. This issue is about the strong voice from Central Sulawesi province that demands INCO to step out from Bahodopi block in Central Sulawesi area based on the fact for more than 20 years INCO has not explored this area yet (Kompas, August 5th 2002). Furthermore, Southeast Sulawesi province through

Governor Ali Mazis also proposed Jakarta to immediately make a review on INCO's CoW, based on the assumption that INCO was seemed to be willing to take control the concession area without any development and exploration. This situation has made much lost to the province, since the province could have actually earned incomes by maximizing the idle concession area (Kompas, June 27th 2003).

- Local grass roots movement. The issue has raised in the late 1999 until 2003, following by several mass demonstrations in Sorowako, Wasuponda and other INCO's mining concession areas demanding INCO to give more attention and benefit to local community, otherwise they will ask INCO to step out from the region. Furthermore, in the same period, there was a big issue that has nationally become abroad in other concession area in Bahodopi (Central Sulawesi) when the local people settled around the mining block; supported by some environmental NGOs, strongly demanded INCO to leave the concession area.

CHAPTER 7 CONTRIBUTION TO THE LOCAL DEVELOPMENT

The aim of this chapter is to evaluate and analyze the achievements done by INCO in regards to the local economic development improvement in Sorowako and surrounding areas by using the indicators of economic development theory and the model of sustainable development both outlined in the literature review (Chapter 3). In order to evaluate the company's environmental impact performance; the research will be using the Indonesian environmental regulation as a guideline (criteria).

The result data in this chapter is important to be used as a tool and indicators to support each argument in this research based on the relevant and reliable theories which has strong base of reference. Most of collected data in this chapter are heavily based on the secondary data.

7.1 Economic Development Perspective

In Chapter V, INCO's financial contribution and multiplier effect have been discussed; therefore in this part uses the non-financial indicators, where the achievements of INCO's community development program can be categorized as

follows:

#	Program Category	Economic Development Indicators
1.	Education, Research & Training	<ul style="list-style-type: none"> • Education infrastructure and facilities (1968 – 2004): <ul style="list-style-type: none"> • <u>Sorowako</u>: builds 2 kindergartens, 2 elementary schools, 1 junior high School and 1 high school. The elementary schools can accomodate 2000 students in total. • <u>Wasuponda & Wawondula</u>: public schools' reparation. • <u>Malino</u>: builds 1 high school • <u>Makassar</u>: reparation of SMU 17 (high school) • <u>Palopo</u>: built 1 public library • Provided the total of 120 teachers in Sorowako and also for remote area (called as Gudacil program) since 2000 - 2004. • Since 1985 – 2004 there were 1.800 graduates from INCO's high school. • Provided technical training program and financial support (honorarium) for 600 public school teachers in remote area since year 2000 - 2004. • Annual scholarship for students from elementary school level until major universities and post graduates since year 2000 - 2004. • Co-operation program with University of Hasanuddin. • Foster Children program. • Provides facilities and data for researcher students. • Worked together with BPPT in cloud seeding program. • Supportes facilities for LIPI and Oceanography. • Inco Sumitomo Memorial Training Center (ATS). • Craftsmanship: <ul style="list-style-type: none"> • Heavy duty mechanics. • Industrial Instruments. • Electrician. • Agro Industries. • Short vocational training: welding. • Workshop for local younger. • Administrative apprenticeship (Proma 3). <ul style="list-style-type: none"> • 3 months training. • 3 months work practice.
2.	Health & Welfares:	<ul style="list-style-type: none"> • Builds and repaires community health clinics (puskesmas) in each village in Sorowako. • Builds the company hospital; with 18 doctors, 52 permanent nurses and 28 contract nurses who are able to serve around 12,000 people in Sorowako. • Builds and repaires community health posts (pos

		<p>yandu) for the baby care and treatment in each village in Sorowako.</p> <ul style="list-style-type: none"> • Free health care counseling. • Free medical treatment for the local native people in Sorowako and subsidizes 25% - 75% health care cost for other 12,000 people in surrounding areas. • Provides medicine and medical supplies. • Free inoculations against local health outbreak.
3.	Infrastructure:	<ul style="list-style-type: none"> • TV relay station to TVRI. • Satellite dishes and televisions. • Diesel electrical generator. • Village roads, bridges and Quay. • Drainage program. • Portable Water. • Religion facilities. • Distribution of magazines. • 5 MW electrical powers to PLN. • Sport and recreation facilities.
4.	Agriculture:	<ul style="list-style-type: none"> • Seeds and fertilizers assistance. • Farming road. • Rice field irrigation. • Fruits and vegetables development. • Hand tractors. • Rice farming counseling program. • Revolving capital for farming cooperatives.
5.	Local Business Development:	<ul style="list-style-type: none"> • Public market construction. • Outsource services to local companies. <ul style="list-style-type: none"> – Town maintenance. – Cleaning services. – Ground work & Grass cutting. – Mechanical and civil work. • Micro finance Development <ul style="list-style-type: none"> – Catering & Restaurant. – Animal Husbandry (Raise Chickens). – Furniture (Ebony and Bamboo). – Repair Shop. • Local contractors training. • Local suppliers: labor and supplies. • Comparative study for young businessman.

Table 7.1.1 INCO's Community Development Achievements

(Source: INCO 2004)

A quantity of human power available to produce goods and services might be one of the importance sources in triggering economic development. Then, improving the quality of human resources that lead workers to be more productive is indispensable

action. That is why the Education, Research and Training are put in the first priority in the INCO's community development program. In this case, we might see that the most notable efforts of INCO's in this field are the long-lasting support of national education program. The company itself has not only been emphasizing the basic primary education for societies within its regional operation areas by building and repairing schools for elementary education as well as higher secondary education, it has also been contributing more to linkage the secondary education graduates to university. Moreover, the long-range vocational training field from home-based industry to light and heavy industry, workshops, and apprenticeship have also been facilitating for improving community capability in producing a competitive goods and services. In line with this education infrastructure support, the availability of teachers and instructors for respected institutions has inherently become a company's awareness. For update information, since July 2004 INCO had formed a special school in Sorowako with international curriculums and all classes are taught in bilingual system; Indonesian and English. Moreover, started in January 2005 this special school has built a cooperation program, with Singapore Teachers Union (STU) in conducting twining program and technical assistance program. There are two significant achievements that have been reached by this community development program in education. First is,

since the first social volunteer groups in 1979 had started their social activities program in some villages surrounding Sorowako town; today the number of illiteracies in Sorowako villages are totally eradicated. And second is, since 1985 until today, the schools owned by INCO (elementary level – high school level) have always been positioning themselves as the number one best school in the regency level (East Luwu Regency) and the best top ten in the provincial level (South Sulawesi Province).

The health-development relationship is a reciprocal one. Economic development tends to improve health status, while better health contributes to economic development (Perkins et al 2001).² Then, in the absence of significant overall development, the health conditions will be much more difficult to be achieved. The INCO's has put its health priority program in improving the basic community health, by building community health clinics and posts, hospital, and its related infrastructures support. The company also provides medicine, medical doctors and nurses as well as facilitating the community health education program through health counseling. Then, the community health status could be thoroughly examined by clinical examination and qualified health professionals. It is to mention the main part of contribution in this health-welfare field. One of the obvious achievements since the medical program for

² Economics of Development, 5th edition, W.W. Norton, 2001

the locals has been conducting in 1979 – now is the eradication of tuberculosis cases until up to 95%. Tuberculosis was one serious problem of people's health in Sorowako in the 1970s.

The infrastructure development has long understood as an important path for economic development. INCO's has contributed in the field of basic infrastructure development such as in roads, bridges, and quay. The other important one is the electric energy provision for community in its business area. This could also be benefited by other jurisdiction by introducing positive externalities for local development. To enhance the capacity of community in wide-range issues, the telecommunication field is also be built and improved. In line with this priority field, the sport, recreation, and religion infrastructure development are also being supported for enhancing the mental development.

Agriculture's role in economic development is central since most of the people from developing countries make their living from the land. In refer to this central issue, the assistance for farmer so as to increase the productivity of their land is one of the important factors that should be thoroughly addressed. In this case, the significant contributions from INCO are to build the faring road, irrigation and technology uses in agriculture. Moreover, the counseling and farmers community relationship are also

well facilitated.

In the Local Business Development field, public market is the first priority for supporting the economic activities for societies. The next important efforts are the entrepreneurship program specializing in home-based industry like furniture, service industry and light mechanical industry. The outsourcing program for local service industry, micro-finance development are stand side by side with local economic development overall program. In the long run, these efforts might be considered as the most important one for improving the overall local community welfare.

7.2 Environmental Impact Management System

Basically, due to the environment management policy, INCO has always complied with the Indonesian law and regulation (Chapter 3) which are authorized and managed by two parties in this matter; the Department of Energy and Mineral Resources (DEMR) of Republic of Indonesia and Board of Environmental Impact Analysis or *Badan Pengendalian Analisa Dampak Lingkungan (Bapedal)* under the Department of Environment. The audit program over the environmental impact and the waste management system is conducted by DEMR and *Bapedal* joint team every year.

In Chapter 3 we have discovered that the Indonesia's environment law was

officially launched and implemented in 1982 under Ordinance No. 4/1982 (revised by Ordinance No. 23/1997). Regarding this environmental law issue the question then is; before 1982 what regulations or laws were used by INCO as a guideline for its environmental impact management system? Based on the interview with INCO's former CEO of Operations who dealt directly with this environmental impact management system and was in possession of old written documents as evidence. These showed that before 1982, INCO's environmental standards complied with those of the Canada whose environmental impact regulations were much stricter and therefore were of a much higher standard than those of Ordinance No. 4/1982 (INCO 1970).

According to INCO corporate regulation; for the internal control system, INCO also has its own internal audit for the waste and pollution management system by sending the experts directly from the head quarter in Toronto, Canada to Sorowako in order to check and review on the existing system. The internal audit program is conducted every three year and changeable depends to the matter of urgency. These points below are the results of INCO's environmental monitoring and control program that has been audited and validated by *Bapedal* in year 2004:

Water pollution management:

INCO's effluent discharges have periodically exceeded prescribed limits for soluble nickel and chromium. INCO has implemented a number of changes that have reduced the levels of nickel and chromium. The company is still continuing efforts to maintain these levels within prescribed limits.

Some changes in INCO's operating practices and capital expenditures in 2003 have brought the nickel content in effluent into compliance with Indonesian standards during 2004. Chromium levels were returned to within required levels in the fourth quarter of 2004.

Two studies are currently underway to reach better understanding about the cause of elevated chromium discharge levels and had accomplished in 2005. It is anticipated that INCO is able to maintain the compliance with regulatory limits on effluent discharges in the future.

Six sediment control ponds were completed in 2004, and provided better settling of solids coming from surface run-off from the mines. As the result, total suspended solids in effluent were well within the Indonesian standard. A further three ponds are still under construction approximately complete in end of 2007. INCO experienced a spill of approximately 360 liters of fuel oil in 2004. The oil spilled was recovered by

pumping it to a tanker and recycling it for process heating in the smelter.

Corrective measures including employee training, improving the effectiveness of oil traps and installing an oil boom at the discharge have been put in place to prevent a reoccurrence. In 2004, Professor D. Haffner, an environmental expertise from University of Windsor, Canada, had accomplished extensive studies on the water in the Lake Matano with the result that over five years the lake experienced negligible impact due to INCO's operation around the lake (Source: INCO Corporate Social Responsibility Report 2004).

Air pollution management:

Since 1992 INCO Ltd has invested in order to improve air quality management or air pollution control system. During 1998 – 2004 INCO Ltd had allocated around 120 million US dollar to improve its overall environment technology to its entire branches including Indonesia. As the result of this program, in 2004 INCO Ltd had been able to reduce overall air emissions (from all its operations in the world) by 80 percent.

In Sorowako April 2005, related to the dust emissions reduction program, INCO planned to shut down a furnace. During that period, INCO was setting a plan to complete the installation of the new “off-gas” cleaning system that hopefully would be

completed in the second half of April 2005 with the target of reduced emissions by 25 percent. If this new system is proved to be successful, INCO will add this system into its existing four furnaces in the next year; and approximately in 2007 the dust emissions produced by these four furnaces will be reduced until 25 percent each (Source: INCO Social Responsibility Report 2004).

Land Reclamation:

INCO has planned an ongoing reclamation and re-vegetation program to ensure that areas that have been mined will be returned to their natural condition. INCO has managed a corporation with local universities to develop indigenous plant mixes that will be used to maintain the biodiversity of the area.

By the end of 2004, 3,222 hectares of land have been disturbed by mining activities. In 2004, 297 hectares were re-vegetated and today, 2,344 hectares have been re-vegetated in total (Source: INCO Corporate Social Responsibility Report 2004).

7.3 New Sustainable Development Model Approach

Based on the sustainable development model approach formulated by Metal Mining Agency of Japan; INCO's operational model can be divided into three different

categories (traditional, transition or mix and sustainable development model) based on the operational time period as follows:

Traditional Enclave Model (1969-1980s)	Transition / Mix Model (1980s-2000)	Sustainable Development Model (2000-Present)
<ul style="list-style-type: none"> - Negotiations and agreements between central government and mining company - Taxes and royalties all go to central government - Compensation for individuals - Training dedicated to the needs of the mine - Employment positions filled by newcomers - Inputs sourced from outside the community 	<ul style="list-style-type: none"> - Negotiations and agreements between central government and mining company - Taxes and royalties all go to central government - Compensation includes infrastructure for community - Training is expanded to benefit community as well as mine - Mine services outsourced to community - Employment positions for community not just outsiders - Inputs sourced from local community and region as well as outside. 	<ul style="list-style-type: none"> - <i>Negotiations and agreements between central government and mining company</i> - Central government shares taxes and royalties - Compensation includes infrastructure for community - Training is expanded to benefit community as well as mine - Mine services outsourced to community - Employment positions for community not just outsiders - Inputs sourced from local community and region as well as outside.

Table 7.3.1 Transformation of INCO's Operational Model

(Source: Hosoi 2003)

1969 – middle of 1980s: INCO was applying the traditional enclave model as identified by the following indicators:

1. The central government (DEMUR) and INCO were the only parties, privy to the contract (CoW). Local stakeholders i.e.: regency government, local parliament and grass roots were not consulted nor was their participation and involvement

sought in any aspect or development of the project.

2. Taxes and royalties all went to the central government (DEMR). Before the Ordinance No. 25/1999 about the new income distribution proportion between the central and local in 2000 was issued, all payments must be paid directly to the central government (centralization system).
3. Training dedicated to the needs of the mine. It is normal for a mega mining project to require highly skilled and educated personnel for its operations. In line with that objective all of the training programs conducted by the company were tailored to meet the particular needs of the operation. The mining industry can be characterized by three key aspects (1) capital intensive, (2) high technology and (3) labor intensive. A fact of note that should not be discounted is that the mining industry is an intensely high risk business. It's propensity to go under can be imminent if its fails to secure the necessary 'skilled' manpower to carry out operations. Due to the highly advanced technological systems and equipment that is used, hiring, training and maintaining capable manpower with the appropriate knowledge is a crucial factor for the operation to survive in the industry.
4. Employment positions filled by newcomers or outsiders. In the beginning of the

project, the hierarchy of employee structure was quite obvious where all of the senior management positions were occupied by expatriates mostly white people with a few Koreans. In contrast most of the South Sulawesi people (non-Soroakan) as well as the indigenous people (Soroakan) themselves were considered unskilled workers or even non INCO employees. In the middle level positions which starts from the skilled worker level to junior managers up to the senior manager level some positions were filled by Indonesians, but most of them came from outside Sulawesi; namely Sundanese, Javanese and Sumatrans (Robinson 1986: 239-240). Kathryn Robinson (1986) views this employee hierarchy structure as a racism issue where the white people were considered superior and often dominated other races (Indonesian and the locals.) This situation might trigger serious problems in the future as the indigenous people of Sorowako have been considerably marginalized by this condition. Since 1969 until early 1990s the CEOs were always replaced by other expatriates.

5. Input source from outside community. Based on the interviews with some sources who were the project pioneers (the first INCO's exploration team); in the beginning period of the project almost all of the company's supplies were imported from overseas. Not only limited to the supplies for the mining

As for the issue of compensation to the community since it began operations in 1969, INCO has been compensating the locals not only on an individual basis (those who lost their lands and farms) but the community in general. It has developed and built infrastructure and public facilities such as roads, electricity and health posts for the locals. Though they are limited the infrastructure and amenities are a part of INCO's management policy since the beginning (company's good will.) The company wanted to prove to the local community the advantages linked to the project outright by giving them tangible and direct benefits, rather than a promise.

Middle of 1980s – 2000: INCO was still applying the traditional enclave model in general with some adjustments and improvements. For point 1 and 2 they remain the same as it is impossible for INCO to make adjustments. It should be underlined that point 1 and 2 are the Indonesian government's policy which is recognized as an independent variable in this research. Also for point 3, as mentioned before that the mining industry deals with a high technological system, therefore the high quality of mining equipment and spare parts is compulsory which in this period it was undeniable that the Western countries' products (US, UK, Germany, Australia, Canada) were of superior quality. However, there were some indicators showing a transition or improvement to the sustainable development model as follows:

1. Training was expanded to benefit the local community as well as the mine.

Based on the primary sources' explanation; since 1985 INCO's external relations team had started to discuss and set up a long term plan (external relations blue print 1985) regarding the local community capacity building in the future. The first step taken by INCO to immediately upgrade the local capacity was to conduct a short training program for the youth in Sorowako village before placing them in some of INCO's mine works. The first training was limited to the heavy equipment operating system, mechanical skills,

2. Employment positions for the community not just outsiders. In the middle of the 1980s until early 1990's was the time when many of INCO's pioneers were referred to as "*Indonesianisasi*" of the company. During this period many of the strategic and high positions which used to be occupied by the expatriates were taken over by Indonesians (including persons from South Sulawesi and Sorowako). Many people viewed this transition as a political movement from INCO's head quarters in Canada to show their good will to the Indonesian government; but in the author's personal opinion this movement can be recognized as a technology transfer, where the mining operation gradually is operated by the Indonesian people. Furthermore, Rumengan Musu, a man who ethnically comes from Toraja, South Sulawesi, was appointed as the President Director of INCO in 1995. He is the first Indonesian to become the number one man in the company. The elevation of this 'local' man to the top position

has brought out another problem. It appears that there are those who wish to review or revisit the definition of the term “local” itself (Benjamin 2004). Because the term of “indigenous” or “local people” has many definition based on what is the fundamental base that we use to identify whether some ethnic group can be recognized as an indigenous or immigrant (Benjamin 2004: 4-8). As a nation of course we should see all the Indonesian citizens as one group, regardless of their ethnic background (1945 National Constitution Article 29), therefore when the majority of INCO’s middle managers are positioned by the Indonesian, it might be seen as INCO is being “localized”. But if we view the term of “local” by divided based on ethnics, then it would be claimed that those who are in the manager level is still “outsiders” (Benjamin 2004; Eades 1992: 127, 128).

3. Inputs sourced from local community and region as well as outside. From the well known Sorowako’s entrepreneur figure; he mentioned that his current business as an INCO’s big vendor (equipment maintenance, parts supplier, transportation supplier, etc) is an example of the tangible benefit of INCO to the local business people (he has around 300 employees). He explained that his small business (chicken and meat store) had started to grow when in late 1984

INCO implemented a new policy to limit the import goods for employees' daily needs and started to purchase goods (chicken, meat, vegetables, etc) from the locals. This was quite a controversial change as many of expatriates were unhappy with it. However, with a significant improvement in the quality of local products which was strongly supported by INCO through training and comparison studies by visiting some luxurious hotels in Jakarta, finally the local products were given the approval as having matched the standards required by INCO. Finally by the end of 1980's almost all of the daily needs of INCO's employees have been supplied by the locals.

2000 – Present: INCO applies the sustainable development model except point 1 of negotiations and agreements (contract), where the signed contract is the long term contract that will be expired in 2025. The sustainable development model indicators that have been implementing by INCO nowadays are as follows:

1. Compensation includes infrastructure for community. Looking back at INCO's community development table in the previous part, it is hard to deny what the company has built to show it's commitment to local development by developing, maintaining and improving infrastructure and public facilities for

the locals from time to time. In the author's perspective; the infrastructure for people such as education, electricity, agriculture, public health and medical treatment are the most important things to be improved and maintained for the future of local development. They are very important because INCO and the locals should take all that into full consideration in anticipation of when the mine will cease operations in 2025. The human resources capacity is of utmost importance which can be achieved through good education and good quality of health. INCO has provided the community with the facilities they need to pursue those goals.

2. Training is expanded to benefit the community as well as the mine. The main objective of INCO's community development program since the year 2004 is to develop a self reliant local community by gradually minimizing the local's dependency on INCO in every aspect (INCO 2004). According to this mission, INCO and the locals now focus on four vital aspects; a self reliant community through education, a self reliant community through a public health system (village based health and medical treatment) a self reliant community through an agriculture based economy and a self reliant community through local business entrepreneurs. With regard to this long term program, if we look back

to INCO's community development initiatives, nowadays the training program has a wider scope and its focus is no longer centered on the mining operation. It is advocating a new direction or rather a return to agriculture as well as other non-mining activities in preparation for the 2025 cessation of INCO operations.

3. Mine services outsourced to community. Based on the primary sources' info at the moment many of INCO's internal operational are being outsourced. For mining services, the some of heavy equipment and spare parts supplies and maintenance are about 90 percent outsourced to the local suppliers (Drezner 2004: 24). Furthermore some of local vendors also supplies labors for a certain mining supporting project (road building, dam and factory overhaul).
4. Employment positions for community not only outsiders. Today 99 percent of the total INCO's permanent employees (3,000); from the blue color labor level to the board of directors members are Indonesian citizens (INCO 2005). Furthermore as it has been mentioned in Chapter V that the latest statistics show that around 69 percent of Sorowako people are INCO's employees and 32 percent of them are being well educated (diploma, bachelor and master degree)
5. Inputs sourced from local community and region as well as outside. In order to

continue the good cooperation with the local suppliers since 1985, INCO emphasizes to prioritize the inputs (labors, goods, food, etc) from the locals. Nowadays many catering and restaurant, animal husbandry (raise chickens), furniture business (ebony and bamboo) and other local company entities have flourished and most of them provide and service almost all of INCO's needs (Drezner 2004: 29). The import goods still exist, but have become quite limited in reference to items and numbers.

7.4 Summary of findings

In putting up INCO's performance against the indicators as stipulated by the economic development theory from the evidence provided by this research it is clear that the company has indeed satisfied most. The eradication of tuberculosis and illiteracy problems in Sorowako is two undeniable evidences of the social living improvement as the impact of local development by INCO. In regards to the sustainable development model indicators; with 99 percent of INCO's total labor force made up of Indonesian personnel and 69 percent of total indigenous people population are working for INCO, it is also in compliance with one of the main criteria of the aforementioned theory.

Finally, in regards to the natural environmental issue, up to this day there is no technology that can give a zero result on the effects of mining activities on the environment as the changing of topography will be occurred (Coutrier 2002). However, INCO's waste management system is quite reliable in minimizing the negative impacts on the environment. This is confirmed by the fact that since it began operations in 1969 there have been no reports (*Bapedal* report) of any serious environmental problems (Asiamoney, December 1999). INCO has always been consistent in its collaborations with *Bapedal* in regards to its annual environmental impact assessment audit, which is strictly required by Indonesian environmental regulations.

CHAPTER 8 THE IMPACT OF MINING INDUSTRY ON THE LOCAL COMMUNITY UNDER THE DECENTRALIZATION

Different with chapter 7, this chapter is strongly using the primary data which have been collected by direct interviews with the local actors. By using the indicators of economic development theory as a tool, theoretically, chapter 6 and 7 have showed about the positive impact of the mining operations to the local development, however, this chapter aims to show on what is the real perception and position of the local stakeholders or actors in viewing all the contributions made by the company.

Does the positive indicators in chapter 6 and 7 linier with a perception from the local stakeholders? If there is a gap between the positive indicators (based on theory) and the local stakeholders' perception, then what is the aspiration and expectation of the local stakeholders?

8.1 Local Stakeholders in INCO's Operations

Before analyzing the issue of INCO in Sorowako, first it is better to give a picture of the changing of relationship between INCO and the Indonesian stakeholders as the

impact of the reformasi movement that has directed Indonesia to implement the new decentralization system at this figure:

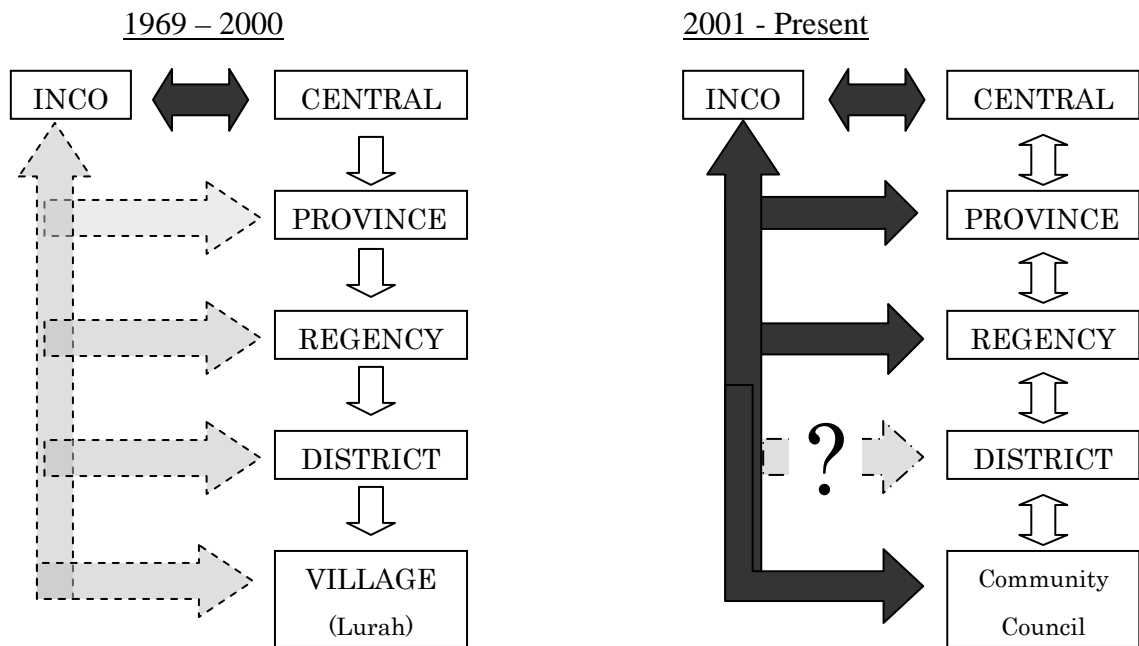


Figure 8.1.1 The Changing of Relationship Between INCO and The Stakeholders

(Source: produced by author)

Figure 8.1.1 above shows the nature of relationships between INCO and stakeholders before the decentralization (under Soeharto's era) and after the implementation of regional autonomy system. The black line refers to the formal/official relationship between INCO and stakeholders which is written and signed in the CoW as a formal agreement that guaranteed under the national law and international arbitration law. The rights and obligations of both parties are managed

strictly under the CoW with some requirements and penalties. The grey line refers to the informal relationship between INCO and the stakeholders which is not written in the formal agreement.

Under CoW INCO has agreed to fulfill several obligations (payment) to the Indonesian interest (represented by central government in the past) that strictly stated such as; royalties, taxes, land rent and water levy. These obligations are recognized as the company's main obligations which the rates and percentages of each obligation is determined by the Indonesian government with some specific given number of amount and must be paid in the certain period and have a penalty. Besides that four main obligations, the company also being asked by Indonesian government to conduct a community development program for the local development.

During Soharto's era, all the payments made by INCO must be going to the central government before distribute to the local administrations; from provincial until village level. The one direction line refers to the "commando" hierarchy system which means that every instruction or decision came from the central must be obeyed by the local administrations without hearing any aspiration or voice from the locals. However, since the implementation of regional autonomy system; the payment procedure system has totally been changed under the Ordinance No. 25/1999, where nowadays INCO should

make the payments directly to the local parties besides the central. Furthermore, since the implementation of regional autonomy system, nowadays the “commando” hierarchy system does no longer exist. The local administration now can argue or even reject the decision made by the central if they felt is not in line with the locals’ interests and objective. Under the Ordinance No. 22/1999 (revised by Ordinance No. 32/2004) the regency government has more power in the region than those who are in the provincial level.

In a different form from the above four obligations, the community development fund is recognized as a company’s good will or charitable program to the local people that does not have any strict specific amount and penalty; and it is not determined by the government. The community development fund is determined and decided by INCO internally depending on the company’s financial performance and grand policy in a certain period. Before 2000, the community development fund was always contributed by INCO to the locals via district administrators as the official ruler. However since year 2000 – 2003 in line with the spirit of reformasi and locals’ empowerment the fund was distributed directly to the grass roots through the community councils in each area. The community development fund is not distributed in cash basis, but in physical and non-physical development such as public infrastructures and local capacity building

through educational program.

The role of each stakeholder in the local level which is the focused of this chapter can be described as follows:

- The Government of East Luwu Regency and staffs as the representative of local executive element in the regency level.

As the ruler at the regency level, regency government has rights and obligation in governing and managing the local administration. The term of governing refers to a legitimate political apparatus in which officials enact policies and make decisions.

- Members of Regional Representative Council II of North Luwu as the representative of local legislative element in the regency level.

Refers to the national constitution (1945 National Constitution), the Regional Representative Council is the implementation of the people's representative in the parliament board, which according to the Indonesian constitution, they act as the control and monitoring system over the local executive's activities.

Every policy and decision made by the executive must be approved by the Regional Representative Council II. Furthermore, the Representative Council II also has a right to dismiss the head of executive or *Bupati* from his/her

position if they do something that unparallel with the law and regulation.

- District administration staffs as the representative of executive element at district level.

The district administration staffs are the apparatus, which has an obligation to carry out the administration activities based on the policy and regulation made by the upper level government, regency administration. Coordinating with the village administration apparatus (*desa*), district administration has right and responsibility to register all the people who live in the area under their authority by issuing or rejecting the people's identity card or *Kartu Tanda Penduduk* (KTP), so they can have a valid data of the number of population in the district area.

- Village administration staffs as the representative of executive element at the village level.

Village is the lowest administrative level that is engaged closely with the people's life and activities in the grass root level. Head of the village (*Lurah*) has right to register and rule the people in his/her village; and has an obligation and responsibility to report his accountability to the head of district administration or *Camat*.

- Community Council as the representative of the people's aspiration in the grass roots.

The Community Councils have played their role as a bridge between INCO and the people in the grass root level; particularly in the distribution of INCO's community development fund since year 2000. The actual main objective of their establishment is to make the community development program more effective and fulfill the demand from the grass root by conducting direct cooperation and communication with INCO's external relation staffs.

- NGO's activists as the representative of grass root advocacy and criticizing group.

As one of the new social movements (NSM) that started to increase in the 1980s – 1990s, the environmental NGO exists in order to respond the threats faced by the natural environment (Giddens 2004: 440). Moreover, the NGO advocacy campaigns have greatly influenced the World Bank's decision to put in place a number of policies related to sustainable development (Goodwin 2001: 352). Regarding the issue over INCO's existence in Sorowako, some environmental NGOs (international, national and local) have also been involved in advocating the grass roots' aspiration and delivered strong critics

against INCO and the central government as the policy maker of mining law and regulation.

- INCO as the representative of foreign investor's interest.

Fundamentally, as a business entity, a company is a profit seeking element.

The main purpose of the company itself is to generate profit for their life cycle; and it is acceptable that they are not charitable organizations (Tan 1997: 101).

However, especially in the global world right now when the non economic factors such as environmental issue, human right issue and others have become

more important and sensitive, a company must also be aware and start to pay full attention to their external environment where they run the business activity.

The social and environmental impacts as a moral obligation are ones of their most awareness, especially for mining company like INCO.

Having understood each actor's role, the interest of each stakeholder can also be identified. Therefore the conflict that might occur caused by the difference of interests would be able to seen in this chapter.

8.2 Local Stakeholders' Perception

1. Key Stakeholders in the Regency Level (*Kabupaten*)

a. Key Stakeholders in the Executive (Government of East Luwu Regency)

Positive Perception

Financial contribution and regional development.

The regency government admitted that financial and physical infrastructure facilities such as roads, electricity, schools, public health services, etc are the undeniable and tangible facts that INCO has contributed to the region, especially Sorowako.

Based on the North Luwu regency's experience during 2001 – 2003, every year INCO had contributed significant values to the regency's local revenue (PAD) in forms of a water levy (Rp. 5 billion per quarter), mining product type C tax (Rp. 80 million per year) and royalty (Rp. 18 billion per year).

Totally, every year, INCO contributed around Rp. 45 billion to the North Luwu's Regional Budgeting for Revenue and Expenditure (the North Luwu's Regional Budgeting for Revenue and Expenditure Report, 2002), which contributed more than half of the overall budget.

Community development program.

The regency's authority has also acknowledged the significant role of INCO in implementing the community development program in Sorowako and other mining circle areas, in order to generate the human resources development in the area, even though the government still holds the opinion that INCO should manage some improvements and pay more attention on the local's capacity building by holding skill training programs to the locals.

The government also appreciates INCO's positive contributions by building and providing the proper medical and health care service to the locals. Some benefits such as free medical treatments for Sorowako's natives, supporting and assisting public health clinics and posts in every village, etc are the tangible non financial contribution to the local human resources development.

Education and training program held by INCO under Sumitomo Memorial Training Center (ATS) is one of the good examples for local people's capacity building besides some other programs like health program.

Community council.

Parallel with the spirit of the 1998 Reformasi or *Reformasi* that has brought Indonesia

to the new atmosphere of democracy which is more accommodative the grass root's aspirations, the establishment of *Komite Masyarakat* or Community Council in every district inside mining circle areas in 1999 is obviously a positive improvement made by the locals in corporation with INCO in order to overcome and minimize gaps of communication, interaction and cooperation.

During the New Order era, the parties involved in community development's program were only the officials of the local authorities (district and regency) and INCO's external relations, meanwhile the grass root's aspiration had never been considered as important element. Today, with the establishment of the community council in every area, people in the grass root level have a direct access and channel to discuss and deliver their critics, suggestions and expectations to INCO and are allowed to participate actively in the community development program. The government highly supports this type of cooperation and hopes that the relation between INCO and the grass root level will become closer and stronger in the future.

Good coordination.

All this time since INCO started its operation in the region, the coordination among INCO as the investor, the regency's authorities, and the mining office (Department of

Energy and Mineral Resources Branch Office) has always been conducted properly and smoothly. All INCO's payments the land rent, taxes, royalties and levies have always been discussed in regular basis among the parties involved and reported them to the local parliament.

Critics, Suggestions and Expectations

Centralized mindset.

The regency government has criticized INCO regarding their "centralized" mindset, which has obviously been seen in particular events. There are many decisions that have been made regarding INCO's activities and its cooperation with the national interests which mostly had been accomplished in the central and provincial level.

According to this matter the regency government is still able to show understanding upon this problem based on the fact that more than thirty years INCO has had dealings only with the central government in Jakarta. However, the regency government has strongly demanded the change of the INCO's typical mindset in the future by focusing on local interests regarding the new regional autonomy system.

The regency authorities has never come to the idea of the total dismiss of INCO's relationship with the central; which is impossible, but at least that from now on every

policy and decision must primarily prioritized upon interests of the local.

The regency administration's involvement.

Despite of the positive and significant contributions made by INCO through its community development program, the regency government has also viewed some weaknesses in the conducted program which are needed to be urgently fixed in the future. One of them is the lack of regency administration's involvement in the community development program; considering the reality that they act only as a supervisor and function in evaluation levels. The regency has never been offered or given chances to participate more and will only be involved when the approved project requires land or labor.

All initial decisions and dealings made upon the community development's plan, the project's type and its implementation are only conducted by two parties; INCO and the grass root level through the community council in the certain area without any inputs and involvement of the regency administration. In the regency administration's point of view even though the establishment of the community council is meant to break the boundary between INCO and the grass root level, but as the official administration in the area, their inputs, suggestions, and approvals are still important and needed,

because every project that has been decided must also be parallel with the regency administration's region strategic development plan.

Grass roots protest.

The regency administration is aware and acknowledges some protests by the local villagers, community councils, and non-governmental organizations concerning INCO.

Public complaints is quite various from pollution issue (both air and water), land dispute (mostly triggered by the compensation fund), unfair treatment among villages, job opportunity issue until those who demand the government to close down INCO's operations, based on the assumption that the company's benefits are only distributed to the central government (Jakarta) and not local communities. The regency government realizes that it is impossible for INCO to accommodate all demands from by the locals.

But, they stress that INCO must be more transparent in all its encounters with the community, especially regarding the allocation and management of community development funds.

Local employment and local sub- contractors.

As a multinational mining company that runs a giant industry; the high standard

implemented by INCO in its recruitment is understandable. However, on the other hand, it is also quite understandable when the local people demand the company to open wider opportunity to join with the company as its staff and employee as a bargain for what they have sacrificed for the mining project area.

Based on people's complaints, NGO's report and direct discussion with the community councils; the regency administration has come to the point of view that until this time the recruitment of the locals by INCO in its project is still below the locals' expectation. INCO should open more opportunities to the locals than those who come from outside the region.

According to the regency administration, the employment's problem has occurred, since INCO's community development has been regarded too much focusing on physical infrastructures' development and ignoring the local's capacity building. The company should give the local more opportunity to improve their capability by holding more education and training programs. Therefore, the locals can meet the INCO's employee recruitment standard.

Furthermore, the regency government has come to the point of view that even until now INCO has still preferred hiring and employing sub-contractors from outside the region; mostly from Makassar as an example. In the future, the regency government

strongly suggests that INCO make more contributions for the local capacity building by recruiting and using more locals as the company's employee and business partner (sub-contractor).

Dispute on water levy issue.

Since 2002 a hard debate had occurred between the North Luwu regency and the South Sulawesi province triggered by the water levy issue. From the provincial level's point of view, based on the Ordinance No. 34/2000, 30 percent of the water levy should be owned by the province, while on the other hand, according to the Ordinance No. 18/1997 the North Luwu regency holds strongly to the belief and argument that this facility should remain as the regency's right of property, which the chance to benefit must be owned by the regency.

The regency authority believes that regional autonomy gives rights over the levy to the regency level, therefore any decision or agreement among the central government, the provincial government, and INCO must reflect the interests of the East Luwu regency.

Regarding this matter, the regency government has suggested to INCO not to make any payment to the province before all parties related to this issue discuss together and settle it together in the proper and acceptable way inspired the spirit of regional autonomy.

Revenue improvement plan.

In order to anticipate the loss of 30 percent of revenue from the water levy to the provincial government in 2003, the regency has planned to increase the income from other sectors, based on the fact that actually at that time the North Luwu Regional Revenue Service had expected the total revenue's achievement higher than Rp. 50 billion from INCO in 2003.

The plans to increase the region's cash inflow which will approximately be relied on the increase the water levy's rate, the demand to increase the regency's share of royalty and the implementation of the local tax on logging activities managed inside mining concession areas. Based this plan, some discussions have been conducted by the regency administration, INCO, Department of Energy and Mineral Resources' branch office and Department of Forestry's branch office.

**b. Key Stakeholders in Legislative (Parliament of the North Luwu Regency /
Regional Representative Council II or *DPRD II*)**

Positive Perception

Financial contribution and community development.

Since INCO started its operation in 1968 until today in the Regional Representative

Council's perspective it is obvious that the most tangible contribution of INCO comes from financial factors such as royalties, land rent, taxes and water levy; and physical infrastructures and facilities such as roads, electricity, school buildings and public health service units.

From the financial factor; the Regional Representative Council views that the biggest cash inflow the regency has achieved is from INCO's water levy. In 2001 water levy had contributed Rp. 4.5 billion to the regional income (Regional Budget for Revenue and Expenditure 2001). Most of the revenues from INCO's payment have been invested to the public facilities' developments such as water installation, road's reparation, public school buildings' rehabilitation, etc.

Especially after the implementation of regional autonomy in the beginning of 2001; the Regional Representative Council feels that the increase of revenues to the local development has risen significantly. The North Luwu regency had had a chance to benefit this condition when INCO contributed up to 35 percent of North Luwu's total budget in 2001 – 2003 before East Luwu was separated from North Luwu and became the new regency in May 2003.

Community development program.

The Regional Representative Council has highly appreciated the community development program; especially in improving the local's education level, training program and health care, even though they still believe some improvements to the program in the future are required.

Despite of positive achievements of the community development program, in the Regional Representative Council's point view; in the future INCO should more focus on the local people's capacity building. Because the crucial thing will be faced by the locals is when INCO's operation is over, based on undeniable fact that the local people have been too dependent to INCO for a long time. The key word of this issue is the technology transfer to the locals before INCO ends its activities in 2025.

Community council.

The Reformasi movement in 1998 has brought Indonesia to enter the new era that more open to the democracy and people's participation, which is also followed by the recognition of local's voice and aspiration. Therefore the Regional Representative Council supports the existence of community development in the mining circle areas as the true representation of the community's aspiration.

The Regional Representative Council views that one crucial thing of this new movement is the open of direct access and channel that links the grass root with INCO without any bureaucratic boundary, therefore the strong communication and interaction can be managed better in the future. The second positive point of the community council is that it can be the effective tool for the grass root's education and network.

The Regional Representative Council really wants the grass root to learn not only how to gain results from INCO, but how to manage and run it in properly.

In the Regional Representative Council's point of view actually there should be a clear mechanism in the relationship and cooperation among all parties involved in the community development program, which are INCO, the community councils, the regency government and the Regional Representative Council. The idea proposed by the Regional Representative Council regarding the mechanism will be as follow:

- The Community council: they propose what kind of project and the expectation of the grass root to INCO by drafting a proposal that already been agreed by all members of the community council, and it must represent the truly voice of the people, and not a reflection of one group's interest.
- INCO: they will screen, select, and carry on the project that is available to implement.

- The regency government and the Regional Representative Council: they will monitor, suggest and watch the project's implementation.

Critics, Suggestions and Expectations

Centralized approach.

Quite similar like the regency government's perception, the Regional Representative Council also has the same thought on INCO's attitude and mindset that have been strongly patterned by the "centralized" mindset all this time.

The Regional Representative reveals some examples that it has been many times that INCO has always more preferred having meetings with the central government in Jakarta and the provincial government in Makassar while discussing crucial issues such as; INCO's obligation, policy's disputes, contract of work, etc than having them discussed firstly with the local authority in the regency as a "first hand" hearing.

The Regional Representative Council has advised that INCO change this kind of attitude in the future, and start opening the first priority to the local stakeholders before going to the upper level.

Local employment and local sub-contractors.

The Regional Representative Council has received data submitted by the grass root level which indicates that from the staffs/employees recruited from the locals in the regency, there is only 0.1 percent of them from the total INCO's employees, whom them fulfill positions in the lower level. The INCO's high standard implemented in the staff/employee recruitment, especially staff required to fulfill positions in the middle to upper level is considered unreasonable for the local people considering their limited education background and other factors.

Meanwhile, it is also understandable that INCO only requires employees with high qualification since the technology used and applied in the company's operation requires so. Therefore, again, equal with the regency government's idea, the training program provided and held for the locals in order to improve their capacity to meet the company's high standard is urgent. At least, with this type of training program, INCO will have shown efforts to give the locals wider opportunity to work in the company.

One issue that has also emerged is upon the using of sub-contractors from outside of the region. The Regional Representative Council had received reports in 2001 about this problem, and suggested INCO to give more transparency and fairness in the tender's process. Furthermore, the Regional Representative Council hopes that in order

to reach the mutual benefits between INCO and the locals, the Regional Representative Council still believes that prioritizing local companies to become INCO's sub-contractor is still considered as important factor.

Dispute on water levy issue.

In the year 2002, the Regional Representative Council has also been involved in discussions upon the dispute between provincial government and the regency government regarding the shared proportion and distribution of water levy. Parallel with the executive's perception, the Regional Representative Council has seen this problem as one of the unclear regulation, which finally has resulted multi interpretation of law. But still based on the principals of regional autonomy that has given more authority to the regency level and legally supported by the Ordinance No. 18/1997; the Regional Representative Council has got a strong point of view that the regency has the right of 30 percent of the water levy, not the province.

The Regional Representative Council has also been proposed and strongly encouraged by the central government and the national parliament (the House of Representative or *DPR*) to support problem's solving, regarding that the central government and the parliament are those who have drafted and approved the regulation.

The Regional Representative Council's involvement.

The Regional Representative Council has felt that for all this time they have not been involved by INCO and the local community in the community development program as they should be. Their role is only limited as the consultant and supervisor of the program held by INCO and the community. The Regional Representative Council's regular program held together with the regency's government and INCO will be conducted only when it comes to the regional budget discussion to make and draft the budget forecast and evaluation of the budget annual expense.

The Regional Representative Council has claimed that actually one of their crucial roles is to make sure that the community development program is implemented on the right track, parallel with the regional development plan, effective and comply with the national law and regulation; therefore in the future the Regional Representative Council must be given wider role in monitoring the community development program's implementation. This is important because in many cases, the Regional Representative Council has never been involved in the first stage of the program, but when the problem occurs between INCO and the community, suddenly the House of Representative must accept and handle protest and complaint upon INCO.

The House of Representative has strongly encouraged both parties; INCO and the

community to build the cooperation with full transparency and keep the House of Representative annually confirmed. Therefore, the Regional Representative Council will always be able to follow and have a better understanding about the community development program's progress.

Financial transparency to the public.

Having recognized INCO as the biggest mining company in Indonesia, the Regional Representative Council is certain that for more than thirty years, INCO has been having opportunities to benefit from the wealth of the natural resources of the land of Sorowako. Therefore, according to this fact, the Regional Representative Council has demanded INCO be more transparent to the public on its finance position. According to the Regional Representative Council, INCO must be fair in sharing the profit with the locals based on the profit gained in a certain period. Even though it is still far below the expectation, but the Regional Representative Council hopes this idea will be considered by INCO in the future.

In the perception of the Regional Representative Council, since the locals have sacrificed their land to be used as mining operation's area, it is also very understandable if the locals demand their right to be informed about the profit gained

by INCO, and how much the reasonable proportion percentage will be as the fair compensation.

Community councils' credibility.

Although the Regional Representative Council has expected the community council to become their “extended hand” to reach the grass root level, but still the Regional Representative Council has been reminding both INCO and the community to direct the community council to act as the grass root’s representative who brings and struggles for their interest, and not become the tool of a certain group’s interest.

The community itself must become the first party that should take more responsibility and awareness of their community council’s activity, and guard the community council from the interest group’s influence that only wants to benefit themselves, instead of the locals.

2. Key Stakeholders in District Level (*Kecamatan*)

a. Key Stakeholders in Nuha District

i. District Administration Office (*Kantor Kecamatan Nuha*)

Positive Perception

Financial contribution and community development.

The Nuha administration has been dealing and cooperating with INCO for more than thirty years; started from 1968. Therefore, they have also known and acknowledged INCO's tangible contribution to the local development much better.

Financial factor and the development of the area which has now turned Sorowako into a mining town provided of public facilities such as; roads, electricity, water installation, drainage, and other public facilities are undeniable facts of the company's contributions

The Nuha administration has also known that with the extension of the contract of work between INCO and the central government in 1995, the mining activity will remain there until the year 2025, and the Nuha administration has viewed this in the positive perception.

Based on the experience in last two years (2001 – 2003), Nuha administration has recognized the INCO's contribution through its community development funds that

have been allocated to each district inside the mining circle areas, even though there are still some problems that finally occur.

Community council.

Under the Nuha administration's authority, they also recognizes some community councils that has been existing in the area since the early of 2000; namely K WAS, FK PW, LE PM AW AS, FK PA S, HI PS O and IS S. These grass root elements are run by community, youth, religious leaders, grass root informal figures and business people.

In general, the reason why the Nuha administration supports the existence of these community councils because now the direct access of communication from the grass root to INCO can be done more effectively.

The role of the Nuha administration itself regarding the cooperation between INCO and community councils in implementing the community development program is as a mediator and supervisor, because still some approvals of the community development program should be undertaken by the Nuha administration.

Critics, Suggestions and Expectations

Not responsive in solving problems in the grass root.

The Nuha administration has criticized INCO, based on the fact that INCO's management is seemed like not responsive and put enough attention to the problems that actually exist in the field such as; land compensation dispute, labor issue, public facilities demand, etc.

In Nuha administration's opinion, the company's strict procedure and bureaucracy chain are factors that have caused the company seems quite slow solving the problems.

The Nuha administration is very much worried if this situation remains the same, it will cause more serious impact on the relationship between INCO with the grass root level in the future.

Environmental issue.

There have been several complaints from the grass root that received by Nuha administration regarding the environmental issue such as; air pollution, improper of post exploration recovery, mining of silica and illegal logging.

Especially about the air pollution problem, the Nuha administration together with the community councils have arranged several meetings with INCO's external relation

officers and asked them to take an immediate action to anticipate it, considering the danger effect to the local people's health.

Unequal treatment among the villages.

One problem that has occurred and become a big sensitive issue is the unequal portion of the community development fund allocation in the three of mining circle areas; Sorowako, Wasuponda and Wawondula.

As the capital city of Nuha district; the Nuha administration cannot understand why Inco has allocated the community development fund unequally; where Sorowako has received Rp. 1 billion/year; and Wasuponda and Wawondula (Towuti district) have only received Rp. 750 million/year for each.

The Nuha administration has strongly demanded INCO to explain to the public the main reason why the company is seemed like treating Sorowako as their "golden" child in the area; since this issue has created a social instability triggered by the social jealous among the areas.

Local employment.

The Nuha administration is very much concerned about the local employment issue

that has been raised many times by the local people to have wider opportunity to get jobs in the company or work in its sub-contractors.

The Nuha administration's perception on this issue remains negative, since even though INCO has existed in the area for a long time, ironically the number of local people who are employed in the project is still very limited. According to the Nuha administration, this problem should be solved immediately because in the past two years there were several terrors aimed to INCO's employees by the angry people who had been rejected by the company.

One demand from the local people to the Nuha administration is asking Inco to allow the locals to harvest the wood in the jungle inside the concession area where INCO will conduct the mining activity later on. The Nuha administration holds on to belief that together with INCO, they can create coordination on which area and cubic of woods can be harvested by the locals before INCO starts the mining activity in there.

Internship program for the local students.

Although the Nuha administration has very much appreciated what INCO has contributed to the educational program in the area by providing the school buildings along with the teaching staffs to the remote area, but still it has not given any satisfying

answer why the difficulty to get a job after graduate from schools is still experienced by the locals.

At the end, many young locals has started to feel that the school and the education that they have been through for all this time has no meaning for their future at all. This situation can not be ignored; therefore the Nuha administration has proposed INCO to open up an internship program for the local students so they can have working experience before the graduation.

ii. Community Council: Kerukunan Wawainia Asli Sorowako (KWAS)

Established : 2000

Member of villages : Nickel, Magani, Sorowako and Nuha

Estimated members : 200 members

Objective :

“Act as the representative of the indigenous people of Wawainians in order to conduct better cooperation and good relationship with the external parties; namely INCO and local government” (KWAS 2000).

Summary :

Regarding the successful of Reformasi Movement in Indonesia in May 1998; the spirit

of democracy, good and clean governance, transparency and people's participation are the main ideas of the movement. The influence of this change has caused a significant impact to the grass root level in Sorowako, especially those who claim themselves as the Wawainians; to get their rights as the indigenous people in Sorowako. That is why the KWAS's main supporters are from Sorowako and Magani, where the Wawainians are the majority.

KWAS feels that since the existence of INCO in 1968 until today, their aspirations, voices and complaints have never been heard and seriously considered by INCO and the local government, especially during the New Order period where everything was always centralized. Therefore, KWAS has come to the point of view that for more than thirty years their rights also have been marginalized quite significantly.

The great students' movement students in Jakarta which has brought Indonesia to the better condition in term of democracy is something that we are so thankful; which has finally made the Wawainians have a chance to stand up again, express what they feel, and demand INCO and the local government to give them their rights.

Positive Perception

Financial contribution and community development.

Although in general, there are still many of dissatisfactions occurred related to what INCO has done to the local development, but Kwas also feels that they still should be fair that the financial factor and infrastructure development in the local area of Sorowako are undeniable facts of INCO's tangible contributions.

Kwas has also acknowledged about the community development program which has given positive impacts to the local, even though they still feel that it is not comparable with what the locals had sacrificed for the existence of INCO (lands and farm fields).

Community council.

Kwas sees that the cooperation between INCO and the locals through the community council in each area as a big break through that should always be fully supported by every party, especially INCO and the local government.

In the past, the cooperation between INCO and the local stakeholders must be done through the local government which in many cases did not represent the interests of the grass root's at all level. Therefore, Kwas really hopes that with the new break through in conducting the community development program the program will be done in more effective way.

Critics, Suggestions and Expectations

Local employment.

In KWAS's point of view there are many of crucial problems related to the local employment issue that can be summarized into big categories such as; no transparency in the recruitment process, discrimination on the recruitment of the locals, outsiders' contractors and no tangible program to improve the local capacity.

As the Nuha administration has also mentioned, it seems like schools and the education program in Sorowako remain unbeneficial to the locals based on the fact that those who graduated are still facing the difficulty in finding the job. Furthermore, INCO must take full responsible and find the solution to the jobless farmers caused by of the lost of their land as the impact of INCO's activities.

Land dispute.

The list of the land dispute problems has been compiled in the NGO's report on March 25th 2000, but in general the problems are related to the unfair compensation, the ignorance of local traditional land, unsolved land settlement and land occupation by force.

Environmental problems.

All this time KWAS has sensed that there are many hidden problems related to INCO in the term of environmental issue that remains unexposed by the media and the central government in Jakarta for a long time.

KWAS has submitted these issues in written form into the NGO's report (March 25th 2000) , and these environmental problems have been summarized as improper mining waste treatment and management system (air and land pollution), tailing system problem, acid rain, lake pollution and damage, improper of reclamation (forest damaging) and re-vegetation in post mining activity area in Sorowako.

Clean water installation and health care services.

In KWAS's stand point it is found very unfair and ironic that for more than 30 years, the clean water installation and high standard health services have only been enjoyed by INCO's employees who live in the company's house complex. Even though INCO has built several infrastructure facilities inside the villages around Sorowako, but still the water installation is something have not been widely enjoyed by all villagers and KWAS has strongly asked INCO to build one for the villagers.

In 2002 KWAS has again launched this proposal to INCO and already received a

positive response from the company. Since the year 2004 there are several new clean water installations developed in the villages.

iii. Community Council: Lembaga Pemberdayaan Masyarakat Wasuponda (LEPMAWAS)

Established : 2001

Member of villages : Wasuponda, Balambano, Kawata, Ledu-Ledu, Parumpanai and Tabarano

Estimated members : 150 members

Objective:

“Inline with the new spirit of grass root’s participation by the new system of regional autonomy, LEPMAWAS is meant to be the grass root communication and interaction forum that represent the aspiration of the people from every ethnic group in Wasuponda” (LEPMAWAS 2001).

Summary:

In the year 2000, there were several meetings and discussions held between Wasuponda people and their leaders to discuss the frustration experienced by the locals due to the fact that of they still live in the poverty while others in other area

(Sorowako), especially those who work as INCO's employees live theirs in a good and proper standard. Wasuponda people have felt it as paradox when some people in other area (Sorowako) can easily have chances to benefit better public facilities; such as water installation and health services, while Wasuponda can not enjoy the equality as it should be.

Based on those reasons, the Wasuponda people have finally established their own community council in the early of 2001, LEPMAWAS and FKPW in order to struggle for their rights that have not been achieved from INCO and the local government. FKPW itself is the youth forum wing in Wasuponda that has led several mass demonstrations during the year 2000 against INCO's policy and activities. FKPW is the front liner in almost every protest movement against INCO. Even though FKPW has established their own forum and activities, but still they always work closely with LEPMAWAS as the Wasuponda's representative organization and decision maker.

Positive Perception

Financial contribution and community development.

Generally, LEPMAWAS still acknowledges positive contributions made by INCO in the form of financial income to the region and infrastructures' development, especially

roads and electricity, even though they consider it as far below the expected optimum level.

Critics, Suggestions and Expectations

Improper land compensation.

In the LEPMAWAS's perception, the tangible contribution made by Wasuponda people to INCO is the lost of their land and farm in order to support INCO's operational infrastructures' and facilities' development such as mining activity's area, nickel process factories, storage, pipe line, water dam, etc. LEPMAWAS sees this as a big sacrifice made by Wasuponda people. Therefore, LEPMAWAS believes that actually Wasuponda people have the right to accept more proper land compensation from INCO. Compensation in LEPMAWAS's definition is not always in term of cash money, but it also can be given in the form of wide job opportunity in INCO's project for those who lost their land and farm due to the company's operation.

Unequal treatment between Sorowako and Wasuponda.

LEPMAWAS believes that for all this time INCO has only prioritized Sorowako area, since it is the center of the company's operation and activity. The different standard

applied in public facilities' building in Sorowako and Wasuponda is the undeniable evidence of this unequal treatment. In LEPMAWAS's point of view even though Sorowako is INCO's operation center, but the concession areas must include three districts. There is no reason for such discrimination.

According to LEPMAWAS, there are several occasions where discrimination can be clearly seen and experienced, but the most obvious one is the distribution of community development program fund, where Wasuponda gets only Rp. 750 million/year, while in the mean time Sorowako gets Rp. 1 billion/year.

The second discrimination issue that has concerned LEPMAWAS is the employment opportunity. LEPMAWAS feels that INCO has always prioritized those from Sorowako and the outsiders (Makassar, Java and Sumatra). In the year 2000 this sensitive issue finally exploded when the recruitment was managed by McConnell Dowell, one of INCO's sub-contractors. The applicants from Wasuponda felt that they were only given lowest priority and at the end this issue had triggered a mass demonstration against INCO in Wasuponda. The locals tried to block the route to the company's factories.

Sustainable development for post – mining period.

The very crucial problem that has come to the LEPMAWAS's thought is the sustainable development in post mining period when INCO leaves the area. What kind of job can the locals get after INCO leaves? For all this time the local people have been too much dependent to the company. Therefore, the problem is a big question about whether the locals survive when most of lands can not be farmed anymore since its soil has been damaged by the mining activity. This is the question that INCO the ruler (central and local government) must immediately answer, due to the fact that they are the parties that should take full responsibility for the project they have created.

Local employment and electricity.

In the year 2002, LEPMAWAS had submitted some proposals to INCO's external relations department regarding the grass root's needs. The demand pursuits INCO to manage more assistance programs for the locals (fund and technical advisory) in education, health care services, agriculture, electricity, clean water installation and business project for local small medium enterprises (SMES).

From the demands above; LEPMAWAS has also focused much attention on the local employment and electricity as the urgent needs of the locals. They have demanded INCO to open up wider opportunity to the locals in Wasuponda to be employed by the

company, or at least INCO would hire the local SMES as their partner in particular projects or side business.

iv. Community Council: Himpunan Pengusaha Sorowako (HIPSO)

Established : 2000

Member of villages : Sorowako and Magani

Estimated members : 40 local companies (SMES)

Objective:

“To increase the locals’ capacity by supporting local business entrepreneurs in Sorowako in building a cooperation with the external stakeholders (namely INCO and the local government) in order to grow and improve their business quality, technology and network” (HIPSO 2000).

Summary:

HIPSO that founded in September 2000 was actually established by the same important figures who are also active in KWAS, therefore it can be concluded that HIPSO’s perception upon INCO is relatively similar to KWAS in general. Many committee members in HIPSO also act as the board of committee members in KWAS, but HIPSO focuses more on the local business strengthening.

Being supported by 40 local companies in Sorowako, the HIPSO's short term main purpose is to get some outsourcing projects from INCO. At the moment there are two big local companies in Sorowako; CV Aneka Jasa and CV Sawerigading. The outsourcing projects that INCO has given to several HIPSO's members are in construction, equipment suppliers, equipment maintenance and garbage management services (cooperate with INCO's town administration).

In HIPSO's opinion, the cooperation between INCO and its members is considered as the company's tangible multiplier effects. Therefore, in the long run HIPSO's main goal is that INCO would have them as the company's permanent contractors or partners in the existing projects or the upcoming ones in the future. For HIPSO, the standard INCO requires in order to become the company's contractor is still too high, which sometime it is even considered as unrealistic, based on the fact that the local companies' capability are still limited. According to this matter, HIPSO has asked INCO for some compromises in order to support the local companies to grow.

b. Key Stakeholders in Towuti District

i. District Administration Office (*Kantor Kecamatan Towuti*)

Critics, Suggestions and Expectations

Dissatisfaction upon INCO's contribution.

In general, the Towuti administration actually admitted that community development programs implemented have contributed something, but if the whole picture has been completely overviewed, this contribution is still far from the expectation, considering what the locals have sacrificed for the sake of INCO's mining operation. The Towuti administration acknowledges that INCO has already built the necessary infrastructure, but still the most important thing expected by the Towuti people is the job opportunity. Some areas in Towuti used to be very productive ones in producing vegetables, fruits, etc. However, since the mining operation started, many lands have been lost and damaged. The Towuti administration can accept that as the consequences of the mining operation in the area, but one thing that INCO and the government (both central and local government) must fully responsible is to find out and offer a just and fair solution to those who have sacrificed their land and farm. It could be in the form a fair compensation by cash or giving them better jobs in the mining project.

Unequal treatment and opportunities to Towuti.

In the Towuti administration's point of view, actually there are two major problems that are seemed to be always ignored by INCO; which are job opportunity and environmental issue. Regarding the job opportunity problem, INCO has not done enough to foster equal opportunity in employment for the Towuti people and local SMES (contractors) compared with its efforts in other regions, especially those in Sorowako.

Based on the some reports received from the grass roots, this situation has created a jealousy and discontent among the people (especially to the people of Sorowako), and it could possibly trigger a horizontal conflict in the grass root level. Furthermore, the unequal allocation of community development fund, where Wawondula only receives Rp. 750 million/year while Sorowako receives Rp. 1 billion/year, has caused the issue of INCO's discrimination policy more obvious.

Environmental issue.

The second major problem is about the environment, which is according to the community council's report; INCO has not restored the abandoned operation's areas into the pre-mining condition yet. In the past, the Towuti district's soil was fertile for producing paddy, vegetables, rattan, wood and other plantation, but since the mining

operation begun, there is nothing left to plant and farm.

ii. Community Council: Ikatan Masyarakat Wawondula (IMAWAN)

Established : 2001

Member of villages : Wawondula, Assuli, Baruga, Langkea and Lioka

Estimated members : 150 members

Objective:

“Work and stand for the people of Wawondula in order to struggle for their interests, rights and aspirations. Furthermore, the council is also an effective tool for the grass root people to unify their strengths in order to improve their capability” (IMAWAN 2001).

Summary:

The establishment of IMAWAN cannot be separated with the social movement in all villages under the mining circle areas. Just like KWAS in Sorowako, LEPMAWAS in Wasuponda; some local figures in Wawondula also felt that the people of Wawondula must also establish their own community council as the reaction of the new social movement in Sorowako and its surrounding areas.

Actually before IMAWAN was established, in Towuti district, there was the first

community council founded called KMPDT, which represented the people who settled around Towuti Lake's coastal area. IMAWAN and KMPDT had always conducted discussions and meetings together regarding the INCO's community development program's plan.

Critics, Suggestions and Expectations

Improper compensation.

Inline with the Towuti administration's general perception, IMAWAN feels that INCO could have actually been able to contribute more to the Wawondula people. What the company has done for the community is perceived to be worth less than what the people have given, such as paddy, rattan, woods area and plantation fields that were turned into the nickel mine.

Especially compared with those in Sorowako area, the public facilities and other benefits which the people in Wawondula could actually have chances to benefit more still remain below the expectation. IMAWAN has strongly asked INCO to be fairer and transparent to public regarding the compensation program implemented in the region and must give the explanation related the different treatment occurs between Wawondula and Sorowako.

Local employment.

Same with the Towuti administration's point of view, IMAWAN is still pushing INCO to give more opportunity to the people in Wawondula and asked the company to conduct an internship program for the youth in Wawondula.

IMAWAN has also suggested that INCO start hiring the local SMES from Towuti district as its partner in particular projects; such as maintenance, general supplier, etc.

Public facilities for the villages.

Related to the public facilities, in 2002 IMAWAN had asked INCO to immediately increase the electricity and water pump installation for some villages under IMAWAN that still have not enjoyed these facilities. Regarding this proposal, IMAWAN stated that INCO has responded and started to work on it in year 2004.

iii. Community Council: Kerukunan Masyarakat Pesisir Danau Towuti

(KMPDT)

Established : 2000

Member of villages : Timampu, Bantilang, Loeha, Mahalona, Pekalua and
Tokalimbo

Estimated members : 120 members

Objective:

“Standing as the local people’s representative in Towuti Lake’s coastal area that will struggle in order to maximize the local people capacity in the long term. In line with the new spirit of local participation under the regional autonomy system, the people of Towuti Lake’s coastal area must struggle and unify together to get their rights in the good and proper way” (KMPDT 2000).

Summary:

Among the areas inside of the mining circle areas, the people in Towuti Lake’s coastal area describe themselves as the poorest whom have also been marginalized from the development in the region. They feel that INCO and the local government have only been focusing on the development in Sorowako as the center of INCO’s mining operation, and coincidentally the distance is probably the factor that has caused the Towuti Lake’s coastal areas forgotten.

Following the step taken by other grass roots' movement in Sorowako and Wasuponda by establishing their own community councils, finally in September 2000 the people in the villages surrounding Towuti Lake's coastal areas has also established their own community council (KMPDT). With the establishment of KMPDT, the locals hope that their aspiration and voice will be more listened by INCO and the local government.

Positive Perception

Infrastructural development and community development programs.

KMPDT has not gotten any comprehensive information about the actual revenue received by the East Luwu regency from INCO. But KMPDT are fully acknowledged about the tangible contributions resulted by INCO's community development program such as; irrigation infrastructure, school buildings, teacher placement and the roads inside the villages.

KMPDT hopes that INCO will continue to support the locals' physical development and human resources capacity building in the Towuti Lake's coastal area in order to help them to improve their living standard, regarding the fact that the majority still live in poverty.

Critics, Suggestions and Expectations

Dissatisfaction upon INCO's contribution in general picture.

In the KMPDT's perception, if the picture is overviewed as a whole, actually the benefits that received from INCO are still unequal compared to what the locals have sacrificed. One obvious example is the electricity facilities. The Larona hydroelectric power plant (PLTA Larona), which is can be considered as INCO's vital facility, is located in Towuti Lake's coastal area, but ironically there are still some villages surrounding the hydroelectric power plant that have not had enough chance to benefit the mentioned facility; like Mahalona village. KMPDT has seen this thing as the failure of INCO's community development plan, and the reason for this matter is because for all this time INCO has paid too much pay attention on Sorowako, and while at the same time the area that are located quite far from its activity's center have not been treated equally.

Besides above obvious example; the problem of job employment and other public needs like clean water and health care services are things that KMPDT are still struggling to get.

Unequal treatment and opportunities.

Again, just like other community council's perception, KMPDT also has a same thought that INCO has been discriminative in creating and applying its policies regarding the community development fund, and always prioritizing the people in Sorowako.

In the KMPDT's point of view, actually what the people have received in Sorowako is already enough compared with the people in other area. Therefore in the future KMPDT really hopes INCO will start focusing on other areas located outside Sorowako in order to act fairly and reach the equality of development in all mining circle areas.

c. Key Stakeholders in Malili District: District Administration Office (*Kantor Kecamatan Malili*)

As what has been mentioned before in Chapter II that because of the East Luwu regency establishment movement since year 2001 until the establishment of East Luwu regency in May 2003, during that period Malili, which has now become the capital city of the East Luwu regency, has been very busy regarding this movement. According to this situation, that is why; related to the INCO's issue, Malili did not pay too much

attention to this matter as all the leaders and the people must still work hard in forming and settling everything due to the transition period (May 2003 – end of 2005).

Positive Perception

Financial contribution and community development.

In the general perception, the Malili administration has acknowledged INCO's important role in the development of infrastructure in the area. When INCO was still under North Luwu administration, in the year 2001 it had contributed 57.86 percent from total gross regional domestic product and from land rent and taxes was reached Rp. 4.8 billion in the same year. These factors proved that INCO is very important for the region's economic development in term of the financial contribution.

At the moment, after Inco is under the authority of the East Luwu administration, automatically that huge amount of revenue has become East Luwu's rights. The East Luwu 2003 – 2004 budget showed that INCO had contributed 69.51 percent from total gross regional domestic product, and followed by agriculture sector which contributed 25.62 percent. By looking at this undeniable fact, it is obvious how important INCO's contribution is to the region.

Furthermore, with an annual funding of Rp. 750 million, INCO has supported

education, health, and clean water facilities building, and transportation as well. However, even INCO has made substantial contributions to the area; the company has not done enough providing jobs and projects for the locals.

Critics, Suggestions and Expectations

Local Employment.

The Malili administration believes that there are only around 100 people in Malili who are employed to work as INCO's employees, where most of them are positioned in the low level. Regarding this problem, the Malili administration has already held several meetings with INCO to discuss about the best solution for this, due to the reality that most locals are more interest to work in INCO than to work in other sectors.

8.3 Critics from The Environmental NGOs' Perception

In order to conduct the research to be as objective as it should be, the critics over INCO from the every element including environmental NGOs' perception must also be obtained to order make the research more balance. The involvement of some national and local NGOs on INCO's issue can obviously be seen on March 24th – 25th 2000, where some environmental NGOs (national and local) along with some local informal

leaders had conducted meetings and workshops about the impact of INCO's existence to the local people's life (Yayasan Bumi Sawerigading's report 2000). The forum participants were as follows:

- Wahana Lingkungan Hidup (Walhi); South Sulawesi branch, Central Sulawesi branch and Southeast Sulawesi branch.
- Jaringan Advokasi Tambang (Jatam); Jakarta Head Quarter.
- Jaringan Kerja Pemetaan Partisipatif (JKPP), Bogor
- Lembaga Bantuan Hukum (LBH); Makassar branch.
- Yayasan Tanah Merdeka (YTM).
- Suluh.
- Yascita.
- Yayasan Bumi Sawerigading (YBS).
- Kerukunan Wawainia Asli Sorowako (KWAS).
- Other local informal leaders.

Among the participants, the very well known and influential environmental NGO in Indonesia are Walhi (www.walhi.org) and Jatam (www.jatam.org). Since 1990th, these two NGOs have been involved in almost every environmental issue in Indonesia, especially during the Freeport's issue in 1995. The other well known NGO involved in

this meeting is YTM, the local NGO based in Palu, Central Sulawesi. In 1997 YTM have been quite intensive in advocating and organizing the local people in Central Sulawesi regarding INCO's activities in Bahodopi block (Sangaji 2002). Furthermore, during April 2001, with the support from Canadian environmental NGO, Mining Watch and other international environmental NGOs, Arianto Sangaji (YTM coordinator) together with Andi Baso (KWAS member) conducted a road show campaign bringing an issue of environmental damages by INCO in Canada; and even both of them attended and gave their testimony about the environment's destruction by INCO in front of the company's board of commissioners in INCO Ltd shareholders annual meeting in Toronto, Canada (Sangaji 2002).

This table is the summary of INCO operations' negative impacts that has been experienced by the local people in the mining circle areas since the mining activities started:

Problem Categories	Key Words
<i>Land Dispute</i>	<ul style="list-style-type: none"> - No recognition on the people's custom land. - The use of force in land settlement process. - Unfair payment for the land compensation.
<i>Environment</i>	<ul style="list-style-type: none"> - Improper waste management system. - The acid rain's negative impacts to the social ecological

	<p>condition in Sorowako.</p> <ul style="list-style-type: none"> - The “extractive” behavior of mining technology. - The damage of three lakes as the impact of mining activities. - The mining factories and installations are not placed in the right location regarding to the local social and ecological condition.
<i>Economic Development</i>	<ul style="list-style-type: none"> - The local people have low access to INCO in order to gain economic benefits. - The systematic process leads to the local people’s poverty. - The very low royalty and land rent rate. - Manipulation in financial and production.
<i>Social - Cultural</i>	<ul style="list-style-type: none"> - The syndrome of new modern city development. - The elimination of local cultures and values. - The discrimination and unfair treatment in term of public facilities and services to the local people.
<i>Policy</i>	<ul style="list-style-type: none"> - The imbalance of Indonesian government’s policy; which has always been on INCO’s side. - The centralized policy. - The global scenario or strategy which benefits the country (central government) and only leaves negative impacts to the local people. - The manipulation of regulation. - The traditional custom system that being unrecognized as the legal evidence in any case.

Table 8.4.1 The INCO’s Main Problems Categories

(Source: Yayasan Bumi Sawerigading 2000)

8.4 Summary of findings

The new governance theory indicates the trend towards stakeholders’ participation in the realm of public decision making. The ‘privatization’ of community development funds management becomes a feature where community groups are empowered to administer such funds. The role of people’s representative as stakeholders’ channel of aspiration becomes even more pertinent and thus, the government can no longer dictate the way in which mining companies deal with their corporate obligations to the society affected by its operations. The fact that community councils emerge as a new actor in

the governance constellations of mining operations, show how the complexity of governance in relation to its stakeholder participation has changed along with the implementation of decentralization. (Frederickson and Smith, 2003).

This is also very much related to the accountability feature of decentralization, whereby people's aspirations are considered only well represented through the decentralization of representation at a lower administration level, which in this case is at the sub-district (kecamatan) level through the establishment of community councils. This indeed shows the increased level of political participations by citizens. In addition, this arrangement allows for local policy diversity between sub-districts, which would otherwise be subject to the discretion at the district level administration and representations under a non-decentralized regime. (Wolman 1990: 34; see also Tiebout 1956).

This is thus inline with the overall argument in chapter 3, in which decentralization has brought about greater complexity in the governance structure, through the introduction of community councils in the realm of public decision making for the mining area of INCO.

The changing of regime at national or state level in 1998 which finally has brought Indonesia to enter the new era of reformasi with emphasizing on the democratizing,

people participation and local empowerment also has been giving heavy impact to the social change in mining circle areas, where people now have more space in expressing their freedom of speech and aspirations (Budiardjo 1998). The new system of the state from authoritarian to become more democratic is very significant in opening the people in the grass roots level to participate in their own region development.

The transformation of the state's system also means the changing of power. In this context, the power of central government in Jakarta has been significantly shifted (or reduced) to the local government (especially regency government). By more power in the local government also means that the local government now has an authority in making a policy in its region. In term of decision making process, the changing at this point also can be obviously seen on the direct cooperation between INCO and community councils, where currently the grass roots is legitimated and allowed in making decision for some projects under community development program.

The existence of community council as the representation of people's aspiration in general is a positive sign as it is also the consequences of reformasi movement. However, actually there are two crucial things that might consider as potential problems. First is about the lost of *Camat's* and Head of Village or *Lurah's* role (authority) as an official ruler which has strong legal base (legitimated) and guaranteed

under the national constitution (UUD 1945).

The second problem is some community councils use ethnicity as the principal idea of the community council's establishment (Eades 1992: 128; Vee 2001: 12; Benjamin 2004: 8). The obvious example is KWAS, who claims to be the representative of Wawainians, the indigenous people of Soroako, so they must get the first priority from the project. Moreover, each community council feels the same way as their group is the only one who has the right to get more attention and a higher chance to benefit from INCO.

Many people from other ethnic groups have come settled and have assimilated themselves with the indigenous people of Soroako. Therefore it is quite difficult to identify whether they are Wawainians or not. Furthermore, nobody has the right to exaggerate differences only based on ethnic via these two conditions.

First, according to the judicial principal that line of thinking is unconstitutional, because the law states that all Indonesian people are equal under the national constitution (UUD 1945 article 29). Second, it might trigger a serious ethnic conflict (social unrest) as there are a fair number of other ethnic groups that also exist. For example if INCO gives a special treat to only one ethnic group, other ethnic groups will demand equality unless the discrimination issues are resolved.

Referring to the context of politics as a concept of distribution / allocation, actually one the main problems in INCO's case is on the distribution of benefits, especially in regards with community development fund, in stead of other classic issues such as; environmental damage, human rights and local land dispute. All local actors at the end have been used their political influences and power to get that benefits from the mining project. INCO's policy in distributing community development fund to Sorowako higher than other areas is quite hard to be understood and accepted by the actors outside Sorowako, which finally has created jealousy among people in grass roots.

The dispute on the benefits' distribution also happened in the local government level, when during 2002 - 2004 there was a strong debate between North Luwu regency and South Sulawesi province due to the water levy issue. In South Sulawesi provincial government's point of view, based on the Ordinance No. 34/2000, the 30% of the water levy should go to the province, while on the opposite side, by referring to the Ordinance No. 18/1997 North Luwu regency strongly believes and argues that this water levy should remain fully the regency's right and must goes to regency.

This 30% of water levy is significant for the local development in North Luwu as in year 2001 water levy had contributed around Rp. 5 billion to the North Luwu

regional income (APBD 2001). According to North Luwu regency, most of the revenues from INCO's payment have been invested to the public facilities' development; such as water installation, road's reparation, public school buildings' rehabilitation, etc. However, still the South Sulawesi province strongly suggested INCO for not to make any payment on water levy to North Luwu regency as INCO must respect to the position of provincial government. As the impact of this dispute, in year 2003 INCO had postponed the payment on water levy and wait until there is a clear direction and decision from both parties.

Finally, in early 2004 the problem has been settled by the intervention of central government, where INCO paid this water levy to the central government; and then the central government distributed to South Sulawesi province and East Luwu regency (since February 2003, Soroako is no longer under North Luwu regency as the new regency of East Luwu was established).

By looking at the problem above, it also confirmed that the chaotic of regulations and policies between the central and local has been created the problem of this wealth distributions more complicated as each party were using their own interpretation of decentralization system. In the closing of this chapter, table 8.4.1 is the summary of the local actors' perception and expectation towards INCO:

ACTORS	POSITIVE PERCEPTION	NEGATIVE PERCEPTION
REGENCY LEVEL		
East Luwu Government	<ul style="list-style-type: none"> - Financial income - Infrastructures & public facilities - Community Development Program - People's participation (community councils) 	<ul style="list-style-type: none"> - Centralized mindset - Lack of local government's involvement in the project - Lack of local employment
North Luwu Parliament	<ul style="list-style-type: none"> - Financial income - Infrastructures & public facilities - Community development program - People's participation (community councils) 	<ul style="list-style-type: none"> - Centralized mindset - Lack of local parliament's involvement in the project - Lack of local employment - Lack of transparency (local employment and financial)
DISTRICT LEVEL		
Nuha District Office	<ul style="list-style-type: none"> - Financial income - Infrastructures & public facilities - Community development program - People's participation (community councils) 	<ul style="list-style-type: none"> - Not responsive to the grass roots' aspiration - Environmental damages - Unequal treatment in comdev program - Lack of local employment - Lack of internship program for the locals
Towuti District Office	<ul style="list-style-type: none"> - Infrastructures - Community development program 	<ul style="list-style-type: none"> - Dissatisfaction on Towuti's development in general picture - Unequal treatment in comdev program - Lack of local employment
Malili District Office	<ul style="list-style-type: none"> - Financial income - Infrastructures - Community development program 	<ul style="list-style-type: none"> - Unequal treatment in comdev program - Lack of local employment
VILLAGE LEVEL		
KWAS	<ul style="list-style-type: none"> - Financial income - Infrastructures 	<ul style="list-style-type: none"> - Land dispute - Environmental damages

	<ul style="list-style-type: none"> - Community development program 	<ul style="list-style-type: none"> - Lack of local employment - Public facilities (health care & water)
LEPMAWAS	<ul style="list-style-type: none"> - Financial income - Infrastructures - Community development program 	<ul style="list-style-type: none"> - Problem on land compensation - Unequal treatment in comdev program - Lack of local employment - Public facilities (electricity)
HIPSO	<ul style="list-style-type: none"> - Financial income - Infrastructures - Community development program 	<ul style="list-style-type: none"> - High standard of requirement
IMAWAN	<ul style="list-style-type: none"> - Infrastructures 	<ul style="list-style-type: none"> - Problem on land compensation - Unequal treatment in comdev program - Lack of local employment - Public facilities (electricity)
KMPDT	<ul style="list-style-type: none"> - Infrastructures - Community development program 	<ul style="list-style-type: none"> - Unequal treatment in comdev program - Lack of local employment

Table 8.4.1: The Local Actors' Perception Towards INCO

(Source: produced by author)

In terms of economic development, the locals' general perception is that INCO has given a significant contribution to the region, especially Sorowako and its surrounding areas. Regional income and infrastructure developments are INCO's tangible contributions and most local stakeholders recognize and are aware of. There are however some people in the grass roots level, especially those who live outside

Sorowako who maintain that they are not fully compensated by INCO and what has been done has been adequate in meeting their demands.

Of all the critics and expectations proposed by locals to INCO, two of which are outstanding; is job employment which is expected to be widely provided for the local people and the other unequal treatment in terms of wealth distribution (community development fund and public facilities). Furthermore, in some local figures' perception INCO still has historical problems that have remained unresolved which are connected to the interest of the local people which was once again triggered and came to a head in the 2000.

Looking at the local actors' perception in general regarding the community development program done by INCO, there is this image that the responsibility for the regional economic development has been delegated to the company, when in actuality it must be fully shouldered by the regency administration. This is not a good trend as INCO is only a profit entity with certain limitation in terms of business objectives and capacity. The regency administration is the local seat of power and must bear responsibility for the development and improvement of its people's wealth and prosperity.

CHAPTER 9 CONCLUSION AND RECOMMENDATION

The purpose of this chapter of conclusions is to present clearly the final arguments and results/responses to the original research problem, questions and objectives outlined in Chapter 1. This is done through a summary of the main findings based on the discussion contained in Chapters 4 through 8. With these findings as a basis, a number of policy implications are outlined and suggestions are made regarding possible areas for future research.

9.1 Summary of Discussion and Main Findings

A relatively detailed historical background of the mining industry in Indonesia was presented in Chapter 4 which revealed that fluctuations and developments in the mining industry are directly related to prevailing socio-political conditions. This chapter concluded that changes in the numbers or importance of various actors, the perception of the public, and governmental orientations are all crucial factors in determining (or undermining, as the case may be) stability in the Indonesian mining industry.

Chapter 5 presented a closer view of the mining industry specifically under regional autonomy. The discussion highlighted a polarized debate over mining in Indonesia characterized by the “pro-mining” camp at one end, touting macroeconomic benefits and the like, and the “anti-mining” camp at the opposite end, proclaiming environmental, cultural and human rights decrepitude. The discussion also revealed that regional autonomy has resulted in increases in instances of protest and conflict involving local mining-affected communities and increased demands on mining companies from local governments. The discussion also outlined the increasingly numerous problems faced by mining companies under regional autonomy (especially those which are private and majority foreign-owned). The government is also shown to be facing challenges arising particularly due to a lack of clarity and understanding of the local autonomy legislation and confusion and resulting conflict over jurisdictions both vertically between the central and regional governments as well as horizontally between regional governments.

Chapter 6 gave an introduction to the case study which was discussed in further detail in the following discussion chapters. INCO was introduced as the TNC-backed mineral extraction operation with Sorowako in South Sulawesi as the area of operation and the two making for the main focus of the study. Recent issues encountered by

INCO and its area of operation were illustrated as forming at three distinct levels: national, provincial, and local/grassroots. These were claimed to have become particularly poignant since *reformasi* and implementation of the decentralization legislation.

An evaluation of INCO's operations in terms of contribution to the surrounding communities was presented in Chapter 7. In terms of economic development, these contributions were found to be quite substantial. There were however some instances of lacking in the environmental management system, although most emissions etcetera are seemingly within legal limits. In terms of sustainable development principles, much improvement is evident over the past 30 years or so of INCO's operations in Sorowako. There is also both tangible and intangible evidence sustainable type developments in the surrounding communities attributable to INCO's presence in the area.

Finally Chapter 8 gave a simple illustration of the ways in which governance relations have changed since the decentralization of Indonesia. Central to this is that relationships between the mining company and local stakeholders have been formally recognized and formalized in legislation. Previously, that between INCO and the central government was the only formally acknowledged relationship regarding

governance instruments and the company. A mapping of key stakeholders engaged in INCO's operations in Sorowako revealed these as: regency (kabupaten) government and staff; the regional representative parliament; the district (kecamatan) administration and staff; the village level administration and staff; recently formed ad-hoc community councils; and nongovernmental organizations. The two major criticisms of these stakeholders regarding INCO were: the provision of jobs for local and indigenous populations; and an unequal distribution of both public facilities and community development funds provided by the company. A major challenge identified for the area is the effective delegation of responsibility for local development to the company, whereas the introduction of regional autonomy should have placed such responsibility on the regional governments. Another major problem identified was confusion and conflict between the provincial and regency (kabupaten) level governments due to differing interpretations of the regional autonomy legislation.

9.2 Conclusions and Recommendations for Policy

Finally, by using the perceptions from all groups and actors (pro and anti-mining) as a base analysis, there are several key findings as follows:

- a. Even though some people claim that the mining industry only generates 3.5% of

GDP, in a broader sense the mining industry still makes significant contributions to the national economic development and job employment.

- b. Foreign capital still has the majority share of mining investment in Indonesia. This condition has been viewed by many people as a type of “neo-colonialism” in Indonesia, where the TNCs are exploiting the wealth of Indonesian natural resources with unfair compensation.
- c. The overlapping laws and regulations which has occurred as the impact of decentralization system and poor coordination among departments involved in mining issues are explanations for the decreasing levels of mining investment (especially foreign investment) in the country
- d. The environmental damage and human rights violations by some mining companies, and the conflict with the local people in the affected areas, have jeopardized the image of national mining industry as a whole and still present a major issue for the national mining industry in the future.

By looking at those key findings, then this research finally come out with the conclusion as; the ambiguity of the implementation of regional autonomy in Indonesia has created chaotic situation and condition in the country, especially in term of law enforcement in the regions, which at the end has been creating negative impact to the

mining industry.

To solve the current problems or at least minimize them, there are some recommendations to be proposed as follows:

- a. The Government of Indonesia must reformulate and reconstruct a clear grand development strategic plan, especially with regard to foreign investment policy. Do we still need foreign investment? If not, what is the grand development strategic plan for earning working capital?
- b. The government and all elements in Indonesia must respect any contractual agreement that has been signed in order to achieve law enforcement and conditions of business certainty in the country. Liked or disliked, the Contract of Work (CoW) is a legal document that is also recognized under international arbitration rules. Therefore, in order to create and demonstrate law enforcement in the country, all elements in Indonesia must respect any agreement that has been signed. Regarding the contractual agreement issue, there are two factors that should be considered by Indonesian government if they want to renegotiate or cancel it: the first is international trust and the second is the international arbitration court. The renegotiation of CoW can be conducted after the current CoW period is expired.
- c. The social environment and human rights problems caused by some mining

activities should be dealt on case-by-case basis. One problem in a certain case cannot be applied or generalized to the mining industry as a whole. Each case should be settled in case-by-case basis. For example the problem of Freeport in West Papua does not reflect the situation in other areas, because the problem factors, the key players and the situation are specific to the area.

d. In the future, the process of formulating and drafting any regulations related to the mining and environment issues must involve the environmental NGOs. As part of new social movement, despite like or dislike, the role of environmental NGOs have played crucial part in every country in this world; including Indonesia. In the paper titled “*Assesing the Impact of NGO Advocacy Campaigns on World Bank Projects and Policies, 1998*” by Jonathan Fox and David Brown; the impacts of the NGOs’ advocacy campaigns can be categorized as follows:

- Blocking, canceling, or temporarily suspending the project.
- Social and environmental impact mitigated, which is the most common.
- New projects in response to pass protests.
- Spillover effects on World Bank policies.

By looking at those four achievements by the environmental NGOs, the business practitioners and government should not see and/or consider the environmental

NGOs as the enemy in the beginning, but as a partner.

- e. The TNCs should pay more attention to the interests and aspirations of local people by engaging in close cooperation with grass roots communities in certain programs that would give tangible and direct benefits to locals. TNCs should manage some adjustments or conducting compromise steps in the field to avoid or at least minimize the potential conflict with the local stakeholders that may occur in the future. In most of TNCs case; the thing that should be seriously considered to be adjusted is the standard of employee recruitment, where the local people have always felt that it is impossible to meet the requirements mentioned in the standard made by TNCs' HR management. On the other hand, it is understandable that as the high technology project, the HR management only needs those who have high skills and knowledge on mining field. For this problem, TNCs should make a strategic communication program to display transparency in every contribution they have made and in the recruitment process as follows:
- Documenting and publishing to the public (both local and national) all the economic development indicators and infrastructure development activities they have contributed and supported from past to present (physical development and financial allocations). Therefore the locals can see how significant the mining

activities' influence to the local development is. It is also better to conduct a comparative study in one or more other regencies.

- Reporting on the taxes, retributions and other levies they have paid and explaining in detail about the policies and the flow where the money has been allocated. To whom they must pay; the amount of the payment; the term of period and what legal basis of this payment must be disclosed properly. This report should be announced in every payment they have made and supported with the approval from the government. Therefore, the locals can fully comprehend the flow of revenues to their area - and subtly plant the question about how government uses these funds; not always address to the companies.
 - Open dialog forum with local people to explain and educate the locals about mining industry, the government policies on mining, the business practices and requirement, etc.
- f. A long term capacity building program for the local administrative apparatus must be implemented immediately to anticipate the internationalization process in terms of business, trade, foreign investment and other international relations matters in local areas.
- g. A long-term plan for the post-mining period should be formulated to utilize and

maximize the income, wealth distribution, public facilities and infrastructure development and technology transfer gained from the current mining activities. The key message at this point is the implementation of good governance, transparency and accountability both in the central and local governments in managing the billion US dollars per year that they earn from mining sector. Not only the funds, but the technology transfer program should be protected from the advance parties.

9.3 Areas for Further Research

The future challenge faced in the research area is the fact that mining companies, central government, local government, community councils and environmental NGOs must cooperate together to formulate a comprehensive plan for the post-mining period. On average, a mining operation's lifespan is around 10 to 30 years; therefore the most important task right now is to anticipate what will happen when the mining operation is ended.

In regards with the above paragraph, then the research questions that could be formulated to set up the next research are:

1. What kind of steps should be taken after post-mining period?
2. How is anticipation of the transition in the way of living for local people, who

have been so influenced by mining activities for around 10 to 30 years?

Comprehensive field research must be undertaken, involving all the local stakeholders and in cooperation with external experts from different fields, to achieve a comprehensive re-mapping of local potential and capabilities in the post-mining period.

We also should be thinking how to utilize the physical facilities and infrastructure that will be left by the companies in the post mining stage. There are several important facilities that most of the mining projects must have: electrical power installation, water installation, high standard permanent housing, medical centers, telecommunication facilities, ports and private airstrips.

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