

GLOBALIZATION, PEACE & SUSTAINABLE DEVELOPMENT IN ASIA-PACIFIC

Regional energy security, the rise of local autonomy and the case of Papua, Indonesia

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Part A – The Millennium Challenge

A.1. Globalization, peace and sustainable development

Globalization, extreme poverty, and a lack of sustainable development for the world's poor constitute the greatest challenges to maintaining peace and development gains this century. The goal is to bring about a model of globalization and development that lends itself to breaking "the pernicious cycle of crisis, poverty and risk that is fueling instability worldwide." (UNDP, *Conflict Prevention, 2000*). The cycle of conflict surrounding the Sept. 11th World Trade Center attacks have triggered a review of our basic paradigms of international development and a renewed focus on Article 1 of the United Nations Charter which gives the highest priority to conflict prevention and entrusts the UN with taking "effective collective measures for the prevention and removal of threats to the peace."

As noted by United Nations Secretary General Kofi Annan, "the prevention of conflict begins and ends with the promotion of human security and human development." (*Report of the Secretary General to the UN Security Council, 2000*). "Comprehensive and coherent conflict prevention strategies offer the greatest potential for promoting lasting peace and creating an enabling environment for sustainable development". What is needed is "a more systematic addressing of the root causes of conflict and the promotion of equity and sustainable development as a necessary foundation for peace."

Policies are needed which seek to adapt the process of globalization by integrating peace and sustainable development and addressing issues such as inequitable distribution of benefits from development, exclusion of marginalized communities from decision-making, and inequality among social strata within and among countries. To take on this challenge, a *Millennium Summit* was convened in the year 2000 by the UN General Assembly to bring together world leaders and chart the course for managing globalization, peace and sustainability in the 21st century. In their "Millennium Declaration", world leaders outlined an overarching policy that gives priority emphasis on adapting the process of globalization for achieving development goals for the world's poorest communities – globalization with a human face. (*Report of the Secretary General on the MDGs, 2003*). In the days that followed the Summit, the UN Security Council reinforced this initiative when it adopted a unanimous resolution calling for "integrated strategies to address the root causes of conflicts, including their economic and social dimensions."

To help drive this effort, the Millennium Declaration included a series of eight time-bound, development targets in the Declaration, subsequently launched as the "*Millennium Development Goals*" (MDGs). The first seven Goals focus on core development challenges to reach an overarching goal of halving extreme poverty globally by the year 2015. Goal 8, "a global partnership for development" underlies all Goals and speaks to issues of making globalization serve the purposes of equity and sustainability (including a focus on open and fair trade, targeting development assistance and an enabling environment of good governance). The MDGs are based on the premise that to achieve development gains this century, "*the central challenge we face today is to ensure that globalization becomes a*

positive force for the world's people.” (Heads of State Statement, UN Millennium Summit, 2000).

Globalization is a term for an ill-defined collection of processes, a central component of which is international trade liberalization. It took all of human history to grow to the US\$600 billion/year scale of the economy in 1900. Today the world economy grows by this amount every 2 years. Unchecked, today's US\$ 16 trillion/year global economy may be five times bigger only one generation or so hence. Achievement of development goals through the further opening of markets would expand developing countries' prospects for growth, supporting the critical resources needed to finance poverty reduction programmes. During the current Doha round of the World Trade Organization (WTO), countries pledged to make the interests of the poor central to future work on the multilateral trade system and to address issues of local equity, peace and sustainability.

In this process, strategic partnerships with business has assumed a significant role, with increasing expectation placed on the role of the private sector in generating development gains, and in bringing about “globalization with a human face”. Investment can support growth and social development for communities, but it can also spur inequitable and social or environmental devastation if preventive actions are not taken. A major issue is how private market forces can serve as partners in implementing new frameworks for globalization, peace and sustainable development. As noted by the UN Secretary-General,

“We have to choose between a global market driven only by calculations of short-term profit, and one which has a human face. Between a world which condemns a quarter of the human race to starvation and squalor, and one which offers everyone at least a chance of prosperity, in a healthy environment. Between a selfish free-for-all in which we ignore the fate of the losers, and a future in which the strong and successful accept their responsibilities, showing global vision and leadership.” (Secretary General Kofi Annan in *De Mello, UNHCHR Report on Business and Human Rights, 2003*).

In acknowledging a critical role for the private sector the United Nations, led by Secretary General Kofi Annan, entered into a “*Global Compact*” in the year 2000 with hundreds of businesses in an effort to bring private market forces to bear on this challenge. In doing so, we must find synergies between these two global platforms – the Millennium Declaration and the Global Compact - to achieve peace and sustainable development through targeted poverty reduction and the engine of growth and trade.

A.2. The challenge in areas of extreme poverty

The 2003 *UNDP Human Development Report* (HDR) focused on the challenge of managing globalization and pro-poor growth for the world's “pockets of poverty” covering the least developed countries and the marginalized communities within countries that are otherwise progressing well towards achieving development goals at the national level. Globalization and expanded trade can be a powerful source of growth, but while growth is necessary for development, it is not enough. Of critical importance in the HDR analysis is the finding that economies with a heavy dependence on natural resource exports are facing major hurdles in achieving sustained growth, with many suffering a decline in human development

indicators in recent years while also being more susceptible to violent conflict. This contrasts with countries that used commodity trade as an engine for catalyzing domestic growth while enacting measures for the equitable sharing of benefits of growth and the prevention of distributional conflicts, and built up of a labor intensive manufacturing sector to deal with employment concerns.

Indeed, economies with high dependence on natural resource commodity exports have the highest poverty. For example, more than 80% of people in mineral exporting countries lived on less than \$1 a day at the end of the 1990s, compared with 43% in service exporters and 25% in manufactured goods exporters (excluding Bangladesh). This overlaps with the fact that conflicts are increasingly located within countries rather than between countries, often taking place in areas where commodity exports take center stage in the economy and where poverty has become entrenched as a result of distributional inequities. (UNDP, *Trade & Development*, 2002).

Leading research by Paul Collier and Anke Hoeffler at the World Bank suggests that twenty-two of the 34 countries that were furthest away from achieving the MDGs in 2000 were affected by conflict, and of the 27 major conflicts occurring in 1999, 25 were internal. (World Bank, 2000) For example, Sub-Saharan Africa, a region much affected by conflict, saw a reduction by 21% of its real GDP per capita between 1988 and 1998. Other priority regions for poverty reduction, such as Central Asia and Southwest Asia, also face such challenges. Their landmark study showed that countries whose wealth is largely dependent on the export of natural resources are more prone to violent conflict than countries that have a broader growth base. Similarly, many of the poorest sub-national units are likewise driven heavily by resource exports and have not been able to diversify local growth.

A main recommendation for economies facing the challenge of sustaining peace and development is to bring about “*diversified growth*.” This must be combined by other policy measures to address the need for investments in manufacturing and service sectors, improved revenue sharing regimes among geopolitical units and among social strata, and capacities to enact appropriate socio-economic and environmental policies to manage macro-policy risks. (FAFO Institute, 2002).

Humphrey goes further by outlining the distinctions between different types of natural resources in terms of the link between commodity exports and the potential for inequity and conflict. He identifies three key factors: the extent to which production is centralized, the geographic distances between zones of production and the seat of government controlling the resource, and the extent to which trade in the resource is legal and legitimized by local communities. (Harvard University, 2003) Le Billon adds by exploring the difference between “point” and “diffuse” natural resources, the correlation of resource abundance and aspirations for secession, community grievances related to extractive activities and benefit sharing, the divorce of resource activities from taxation systems and the domestic economy and the effect of commodity price fluctuations.

Global engagement in a systemic transition to peace and sustainable development also brings to the fore concerns about inequality and underlying distributional conflicts that

span across sub-national communities and socio-economic groups. For globalization and development to translate into poverty reduction also requires policy measures that enlarge people's choices and opportunities - especially those of the poorest.

Concerns about inequality are a common feature of transition economies. (*UNSFIR, 2000*). While growth may well benefit the poor to some extent through trickle down processes, the overall benefit for long-term poverty reduction gets diminished if inequality is not concurrently addressed. Some have even proposed that a 1% reduction in inequality is equivalent to a 4% increase in growth required to reduce income poverty. A sole focus on poverty reduction will miss the fundamental issue of inequality. This approach is in line with a multidimensional view of poverty where trade offs also take into account more general concerns regarding human well-being such as vulnerability and lack of voice and representation.

Of critical importance to this discussion is the political context in which development policy choices are taken. The institutional capacity of local government and the type of economic policies that governments choose can also alter the relationship between resources development, economic growth and the likelihood of conflict. Many have suggested that the greatest factor in supporting conflict and unsustainable practices is inequality between ethnic groups or regions – “horizontal inequality.” (*Harvard, 2003*) Policies that counteract horizontal inequality may help reduce the likelihood of conflict and lead to sustained development and poverty reduction. The relationships between local government and business in designing and executing certain policies related to resource use and development is also of critical importance, a factor of particular concern to civil society interest groups where multinationals corporations are involved in commodity exports and have heavy influence on local policy development.

For development to succeed in areas of extreme poverty, the focus must not only be on more open trade, but also on the local rules required to address peace, equity and sustainability. The emphasis should be on creating markets that are coupled with local empowerment and opportunity as a foundation for peace and sustainability of development gains. The pursuit of unfettered globalization can create pressures against more participatory governance processes. The tensions created, and the exclusion of discrete communities from the benefits of development, are often expressed as distributional conflicts. Unless local communities enjoy greater access to institutions, public hostility to globalization may hold continued barriers to progress.

PART B
Targeting Pockets of Poverty in Asia & the Pacific:
The Case of Papua, Indonesia

B.1. Background

For many countries in Asia, there is good progress towards achieving the MDGs at the national level, but the challenge remains to effectively address ‘pockets of poverty’ at the sub-national level. The task will be to target the benefits and increased revenues from future growth, trade and investments towards this challenge, bringing the benefits of globalization to the poor and including marginalized communities in the process of development.

Following the September 11th World Trade Center attacks and trouble in the global economy over the past few years, recent renewed growth in Asia has led a fresh investment outlook for the region. Global foreign direct investment (FDI) is expected to increase 30% in 2004, with Asia seeing the vast majority of this. By 2008, global FDI is expected to reach \$1 trillion, near levels in 2000 before the attacks. (*Economic Intelligence Unit, 2004*). Of critical importance in this process will be the expected continued rise of East Asia as a hub of growth, trade and FDI and the links this will have with the overall development and growth of Asia. As noted at the first ever ASEAN Business and Investment Summit, held in Bali, Indonesia in late 2003, the emergence of a series of bilateral and multilateral Free Trade Agreements (FTA’s) between countries from East Asia and the Association of Southeast Asian Nations (ASEAN), and between ASEAN and countries from South Asia, may well give rise to the worlds largest ever free trade area over the next decade, with over 3 billion people and more than \$3 trillion GDP. (*Business ASEAN, 2003*).

Of particular importance to development challenges is the expected surge of demand in commodities as industrial development and personal consumption levels in Asia expand. Energy in particular will be critical to future growth in the region, and for achieving poverty reduction and related goals that are inherently dependent on a sustainable supply of energy. Asia is projected to become the world’s largest energy consumer by about 2015, accounting for 35% of energy demand. With the need to secure future energy supplies and diversify types and sources in the near future, twenty-two Asian governments called for cooperation towards regional ‘Energy Security’ at the 2004 Asia Cooperation Dialogue, including China, Japan, India, South Korea and other major energy consumers in the region.

The new Asian focus on ‘Energy Security’ reflects anxiety in the region over the need to meet an escalating energy demand to sustain the region’s emergence as the world’s driver of growth while also ensuring peace and sustainable development. As stated by Chinese Premier Wen Jiabao, “enhanced energy cooperation is necessary to safeguard Asian energy security and promote economic development in all countries.” As stated by the host of the event, Thai Prime Minister Thaksin Shinawatra, “the increasing demand and high consumption of oil has depleted natural reserves of energy sooner than expected.” “That will pose a huge obstacle for many countries still trying to emerge from the poverty line. While there is poverty, there remains discontent. Asia’s priority therefore is to reduce and eradicate poverty.” “Asia must look closely into the strategy of oil usage as well as the research and

development of alternative and substitute energy.” Of critical importance in this process will be the decline of oil and the rise of natural gas over the next decades; natural gas will see the largest increase in demand compared to all other energy sources.

In the context of globalization and rapidly expanding trade in the region, an expected surge of demand for natural gas and other commodities, and overarching goals of reducing extreme poverty and preventing conflicts between and within nations, Indonesia faces particularly important opportunities and challenges.

B.2. Peace and sustainable development in Indonesia

With over 250 million people, Indonesia stands as the world’s fourth most populous nation, and its largest Muslim society. ASEAN’s largest economy, Indonesia also serves as the region’s only member of the Organization of Petroleum Exporting Countries (OPEC) and the world’s largest exporter of natural gas. Indeed, exports of oil and other commodities served as the backbone of Indonesia’s growth over the past few decades. After managing a process of economic and political transition since the outset of the Asian economic crisis and the fall of the 32 year old Soeharto regime in 1998, Indonesia is now experiencing a slow but sure return to growth, and is attempting to regain its place in Asia’s economic framework. Within this process, Indonesia’s position as Asia’s top source and exporter of natural gas is likely to play a critical factor in the nation’s future prospects, and will hold significant issues regarding the region’s ability to pursue globalization while ensuring peace and development.

While renewed investment and a return to growth will be a significant achievement for achieving development goals in Indonesia, the context for this new cycle of growth has changed. In 2004, Indonesia stood for the first time as a net oil importer, as reserves shrink and strategic demands arise to invest in alternative sources such as natural gas. Furthermore, not only must renewed growth translate into development gains for Indonesia’s ‘pockets of poverty’, it must also address greater demands for local autonomy, inclusion of civil society in decision-making and a stronger focus on the role of business in achieving goals of peace and sustainable development. The challenge in Indonesia is to manage globalization and an expected surge of new business investments in a way that adapts to new development contexts – growth with equity and sustainability. A watershed in this process will be the “Tangguh” Liquefied Natural Gas (LNG) operation in Indonesia’s Province of Papua, described below.

In previous decades, growth and poverty reduction goals were achieved in Indonesia through heavy reliance on natural resource exports. Trade in oil, timber, copper and other commodities provided revenues that went to reducing poverty from about 60% in the 1960’s to about 15% by the end of the 1990’s. While the figures remained impressive, complaints arose as to the path used to get there. As the political and economic transition unfolded by the end of the 1990’s, conflicts arose between communities, companies and government, particularly in areas with heavy dependence on commodity extraction. In the context of commencing a new cycle of growth and poverty reduction over the next decade and beyond, it has become necessary to assess lessons learned in the growth-poverty-conflict dynamic of Indonesia’s past and attempt new strategies for the future.

Regions of the country that have traditionally been the source of Indonesia's natural resources have not been able to diversify the local economy away from a sole dependence on commodity exports. Furthermore, the role of business in policy making has increased significantly during the past decades, while communities lacked a significant voice in local development decisions - leading to local complaints of 'unequal protection' and resentment over the local consequences of globalization. As civil society strengthens, companies face far greater criticism over past development failures, with expressions of corporate responsibility a major element in achieving local acceptance. Examples can be found throughout various resource rich provinces. (*See Oxford Analytica, 2002*).

This has led to the emergence of corporate responsibility programmes to help prevent such conflicts and improve the chances of achieving local development gains. However, as described in the Papua case study below, new approaches to mediating globalization, peace and sustainable development are also taking place at more "upstream" policy levels to address some of the more entrenched reasons for local poverty – with a focus below on (i) the process of strategic partnerships in rule-making, and (ii) the emergence of strategies for economic diversification and a departure from heavy dependence on commodity exports alone.

B.3. Papua Province: mediating globalization, peace & development

Papua is Indonesia's largest province and holds one of the highest levels of cultural diversity on the planet with over 250 language groups, each with their own traditions and customary laws. She also stands as one of the planet's ecological centers, with upwards of 60% of Indonesia's biodiversity, 75% of the world's coral species and the largest mangrove forest on the planet. But Papua also holds some of the world's finest mineral and gas reserves, with the world's largest copper and gold mine, and a major natural gas reserve named Tangguh that is currently the focus of new development efforts by government and the private sector.

Even with natural riches, and several decades of development experience, the local population has failed to benefit – Papua also has Indonesia's highest levels of poverty - with about 60% of its population in extreme poverty. The Province of Papua has a history of tensions surrounding management of natural resources and the lack of translation into local development benefits. Community leaders have often asserted that the impacts of investment far outweigh any benefits accruing from employment opportunities and social programmes offered by companies.

The challenge for Papua is to establish a model of local development that meets the challenge of "globalization with a human face", ensuring inclusive decision-making processes. Tangguh will be a test of whether new investments can support regional demands for energy while also achieving local development goals with peace and sustainability. With a US\$3 billion investment by a consortium of foreign investors from East Asia and abroad, Tangguh stands as Indonesia's largest Foreign Direct Investment (FDI) since the Asian economic crisis of 1998.

The Tangguh gas deposit stands as one of the largest Natural Gas deposits in Asia with exports planned to commence to East Asia and beyond by 2008. After several years of cost recovery, it is expected to generate upwards of \$1 billion revenue per year starting about 2015, to be shared between national, provincial and district governments under revenue sharing regulations to be designed and adopted in the future. Revenues over the 25-years following 2015 may well reach US\$ 32 billion. Under a new *Special Autonomy Act for Papua* passed in 2001, the province will retain upwards of 70% of LNG revenues and significant decision-making powers, a shift from past practices. While such revenues could be a major boost to achieving local poverty reduction targets, the challenge for government, business and civil society partners will be to ensure peace and the sustainability of development gains.

In 2004, the local and national government are commencing a “*Partnerships for Sustainable Development*” programme in Papua to engage the challenge of building local capacities to manage this process. With support from the UN Development Programme (UNDP), the programme seeks to find synergy among the approaches of the MDGs and the Global Compact towards common development objectives among government, business and civil society. Papua Province has failed in the past to benefit from commodity export-led growth to improve its rate of progress on development indicators. The programme has two goals, both of which are described in more detail below.

- (i) To support *partnerships* among government, business and civil society to engage indigenous peoples’ role in guiding local development, and the business community’s commitment to corporate responsibility, peace and sustainable development, under the framework of the Global Compact.
- (ii) To support a *new model of local development* that manages globalization and growth through measures to ensure horizontal equity, peace and sustained poverty reduction through a Diversified Growth Strategy (DGS).

Local communities in Papua support strategies based on commodities export but resent the way that such development has been undertaken in the past in terms of lack of local benefits and non-compliance with local customs. Local communities support new investments, as long as they distinguish themselves from past failures and address the need to target benefits to reducing local poverty. Engagement on corporate responsibility and compliance with local traditions are seen as central components of this. Attempts to increase indigenous decision-making powers are central to understanding the lack of progress on development indicators in Papua. To encourage investment, growth and development over the past decades, government and business moved ahead with development operations without sufficiently taking into account and minimizing impacts on indigenous customs, leading to sense of injustice among local communities.

Many hope that any future growth related tensions could be prevented by the *Special Autonomy Act for Papua* (OTSUS). OTSUS was passed by the Indonesian National Parliament (DPR) to devolve power to Papua, particularly with regards governance by

traditional institutions. OTSUS makes an express link with sustainable development when it states “the management and exploitation of natural resources in Papua have not yet been carried out optimally to raise living standards, resulting in an imbalance between Papua and other regions and a neglect of the basic rights of indigenous peoples.”

The remedies offered by OTSUS include – greater powers of local government, a larger local share of income from investments, a stronger recognition of indigenous customs, and the empowerment of institutions to voice indigenous aspirations and values in decision-making processes. At the heart of tensions in Papua is the discord between state views of legality and indigenous customs. Land management in particular has arisen as one of the most prominent issues within the peace and sustainable development debate in Papua. Local communities do not necessarily oppose the role of investors in helping to achieve development goals, as long as their customs are respected. Development in Papua has been weighed down by conflict and unsustainability largely owing to an inability to achieve consilience between state and indigenous systems.

OTSUS has the express objective of empowering the rights of indigenous peoples and addressing past problems regarding natural resource development and lack of progress on social development goals. It was developed as a result of the overall political transition in Indonesia following the fall of the 32-year old Soeharto regime, and the need to address the issue of cultural diversity within Indonesia’s development policies and programmes. UNDP consultations in 1999 found variations in the degree of autonomy regions aspired to achieve. Provinces like Papua that were rich in natural resources expressed higher expectations on what regional autonomy could deliver. The views expressed in provinces that were not rich in natural resources were not as strong, simply wanting more flexibility and autonomy over planning, budgeting and management of development within their region. (*UNSFIR, 2000*).

The autonomy regime was stipulated as a response to the Decree of the nation’s highest legal body under the Constitution, the People Consultative Assembly (MPR), Number XV/MPR/1998 on the Organization of Regional Autonomy: the Equitable Arrangement, Division and Utilization of Natural Resources between the Center and Regional in the Context of the Unitary State of the Republic of Indonesia. Also of vital importance was MPR Decree No.4 of 1999 that stated “the nation’s integrity shall be maintained under the umbrella of a Unitary State by respecting equality and diversity in the social and cultural life of Papua by designating special autonomy regulated by law.” OTSUS was meant to encompass the essence of governance by indigenous peoples while retaining relations within a unitary nation. It defines Papuans as having unique ancestral origins in a specific geographic region, and having specific values, ideologies, economies, politics, culture and social systems. (*University of Cendrawasih, 2003*)

As stated in the deliberations of Indonesia’s National Parliament (DPR), OTSUS stands as a landmark for Indonesia and the world in acknowledging the role of local culture and development paradigms in achieving sustainable development in an era of globalization and decentralization. Indeed, OTSUS may well stand as the largest autonomy regime for indigenous peoples in Asia. It acknowledges the indigenous peoples own “diversity of culture, history and languages” stating that future implementation of development policies

and programmes should always be characterized by respecting and adopting indigenous peoples aspirations. It also signals a shift in policy towards self-governance for indigenous peoples; OTSUS establishing a high level advisory council, the Papua People's Assembly (MRP), made up of indigenous communities, religious communities and women – one third of seats reserved for each group. The MRP could have power to provide advice and ensure that aspirations of indigenous peoples are taken into account in decision-making processes.

OTSUS stipulates that any law, economic venture or agreement (licenses, etc.) must be based on meaningful consultations with communities, and that communities will play a major role in monitoring and evaluating such development activities. (Article 43 Clause 3 and Article 44). It also required an affirmative action policy to empower local participation in the economy. (Article 61, Clause 1), and to manage this process OTSUS also mandates the reintroduction of customary courts to reconcile disputes among indigenous peoples, to rule based on the “living rights of the people.” Disputes between community members and actors such as business outside the community are still left to the jurisdiction of the state courts and related pre-trial systems of dispute resolution.

Of vital importance to preventing future tensions related to investments, OTSUS also establishes a new revenue sharing regime – 80% of forest and fishing revenues and 70% of oil and gas revenues would remain with the provincial and district governments, with the balance to the central government. These new revenues can be a major boost to achieve local development goals; however there is major risk that the increased revenues could increase rivalries among districts and communities. Institutional capacities at district and inter-district scales to manage increased powers and revenues are also a major concern in order to ensure peace and sustainability. Of particular concern in this process, communities feel that companies that benefit from investments have an obligation to support local causes towards meeting development goals. The logic is that companies and indigenous communities have a shared interest in sustainable development, to ensure sustained investment and growth for development and reduction of poverty. This includes consideration of indigenous customs, but also establishment of policies to empower local business. (*Id*)

Local communities desire an economic system which provides equitable and sustainable growth, and which is based on the inclusion of local communities in development decisions, taking into account indigenous values and the need for consultations between indigenous peoples, local government and the private sector. What is called for, as an express basis of OTSUS, is for the province's natural resources to be used for the maximum benefit of its people. Development can only be sustained if decision-making powers are given back to indigenous communities, and capacities are built to reestablish traditional governance systems through effective local institutions.

Two aspects are critical to Papua for implementing OTSUS and form the basis for a new UNDP support programme for local capacity building: (i) Partnerships among civil society, business and government whereby investments are planned and implemented in line with indigenous customs, and (ii) Sustainable and equitable growth which expand Papuan economic and social opportunities and expand the opportunities of indigenous peoples (*University of Cendrawasih, 2002*).

B.4. Partnership as governance reform

Partnerships among civil society, business and government are seen as critical for communities in Papua – to establish a new path to local development whereby investments such as Tangguh LNG are planned and implemented in line with indigenous customs. The relevant question for local policy-makers is not whether increased investments and trade are beneficial or not: regions in Indonesia that have achieved rapid growth and development also saw trade accounting for a significant share of local GDP. The issue is the proper series and nature of policies in moving to trade expansion and growth. The quality of Papua's public institutions will be critical in this regard, many viewing it as the most important determinant of long-term development prospects (*Acemoglu, et al, 2000*).

However, as communities and local governments attempt to enact an appropriate policy basis for starting a new growth cycle in the context of OTSUS, it is important to understand that there is no universal institutional model for a market economy. In establishing a locally relevant mode of governance that takes into account indigenous approaches and concerns, policy makers must avoid thinking a single local governance model defines the institutions needed to sustain a functional market. As Roberto Unger argues, we should not assume that society has uncovered all the varieties of local governance that could underpin vibrant economies. Much can be learned by adapting universalistic approaches with the diverse forms of indigenous systems. Indeed, the lessons from successful economies in Asia show that institutional adaptation demands significant policy space and flexibility. Adapting this process to new autonomy regimes for indigenous peoples will require such flexibility all the more. (UNDP, 2002).

B.4.1. Social compacts for the new economy

The need to address issues of globalization and local autonomy in Papua is more than a consequence of expanding regional and global market forces. It also responds to a process of social, political and cultural change.ⁱ Partnerships are increasingly engaged by local communities in Papua to meet calls for social justice. By 2001, the partnership approach became firmly embedded in the framework of OTSUS, the autonomy regime ratifying partnership among government, business and civil society as a key modality for operationalizing future locally driven development in the 21st century.

The partnership modality is being directed at the new challenge of setting the rules of local development under OTSUS, and managing contentious policy choices surrounding investment and development decisions. Partnerships are increasingly seen as means to “prevent the outbreak of conflict and rebuild a peaceful society.” (*Global Compact Office, Multi-Stakeholder Partnerships and Business in Conflict Zones, 2002*). In effect, partnerships can be seen as one element of the continued adaptation of local governance systems, closely entwined with the process of globalization and regional autonomy.ⁱⁱ

The innovation of checks and balances between government, civil society and business can match the benefits of agency expertise for technical policies and the corrective

features partnerships can offer - transparency for the role of business, effective participation by indigenous communities and excluded groups, and better definition of the public interest. By imbuing the state with the partnership approach, effectively transforming it from 'state as government' to 'state as government, civil society and business', the local rules and boundaries of a new economy can be formulated with a renewed popular element.

There are those that say "partnerships" between government, business and civil society offer one of the greatest hopes for meeting the new challenges in Papua. But why? Standard explanations offer the efficiency, synergy and cost-effectiveness benefits. (*International Business Leaders Forum, 2002*) But a bolder interpretation has also arisen - that partnerships have emerged to manage conflicts between the mandates of public agencies, the interests of business and the values of indigenous communities in defining the rules and boundaries of the new economy. Five drivers of change can be seen (*Breyer et al, 1992*).

- *Market failures*: lack of information to evaluate local aspects of trade and investment, and inadequate reflection of externality costs of investment imposed on local communities.
- *Social exclusion*: social disadvantage and lack of access to decision-making by are driving indigenous communities to rebel against globalization and development
- *Distributive inequities*: rising income disparities among and within provinces; and partnerships as a way of redistributing benefits and facilitating policy changes.
- *Collective values*: growing sense of common humanity as a practical force for social change for issues of environment, human rights, labor, etc.
- *Complex change and strategic planning*: common vision and coordination of activities to bring to bear the benefits of globalization.

In accord with *Coase's* social cost theory, in moving to address these concerns, businesses, communities and local government bargain to create a solution, but the transaction costs prevent effective negotiations from occurring. (*Bryer, 1992*) A standard option in Papua and around the world has been to enact state-backed regulatory frameworks to avoid such costs. (*Peach, 1985*)

B.4.2. Negotiated rule making between government, business and civil society

The formulation of rules to manage these challenges is currently mandated to technical state agencies, delegated power to enact a 'rule of law for a modern, industrial state'. However, progressive erosion of civic trust has led to a crisis of legitimacy. (*Gallup International, 2002*) The partnership approach is directed as a means of governance reform - a corrective measure whereby a negotiated rule making comes about as a middle ground between collective bargaining and standard state regulation.

Agencies suffer from criticism that they lack accountability to and legitimacy from civil society - that they are too easily subject to interest groups. A further criticism is that agency decision-makers are not elected and thus are not directly accountable. Even with elected officials mandated for oversight, many point to the failures in this process.

Withdrawal to the private community of a partnership is set in opposition to this through a claim of limitation on government decision-making power and the partial dissolution of the agency role in social and economic affairs. Government and business would stand as equal partners along-side civic groups. Even where partnerships would be within an administrative apparatus, they would do so on the condition that state deficiencies are corrected by the partnership arrangement. The partnership would do what the government could not do on its own.

Partnerships are relationships evolving into new forms of institutionalized, rule-based frameworks - social compacts for the new economy. (Zadek, 2001). These new forms of governance may well create 'de facto rule of law environments' to set the bounds of globalization in the context of local autonomy. The rules emerging from these processes can become formalized into standard regulatory frameworks. However, most are "being developed and overseen by a diverse configuration of social relations". (Id) While the latter are being maintained through partnership processes that may not carry the weight and coercive force of formalized regulatory frameworks, this form of rule making takes indigenous communities beyond current deficits.

Indigenous communities see partnerships as an alternative constituted in opposition to formal systems. Popular justice, and partnerships in this view, is set against an exclusive realm from which it is different. (Fitzpatrick, 1992) Formal regulations focus on pre-determined types of behavior separated from any particularized social or cultural context. Popular justice "takes identity in positive contrast to this" focuses on very contextualized approaches to rule making and development, with heavier reliance on the knowledge and customs of local cultures. (Id). Partnerships with strong community participation "profess greater responsibility on individuals and communities" - a self-reliance often in opposition to assumptions of state regulation. The hope is more authentic rules with communities providing "an infinite source of standards and legitimization invoked and given effect by and within the operation of social justice".

The recently launched UNDP "*Partnerships for Sustainable Development in Papua*" programme will start by consolidating local compacts among government, society and business imbued with very contextualized approaches to rule making and development, taking due account of indigenous concerns while maintaining the drive for increased trade and investment and achievement of poverty reduction. This should target the knowledge and customs of Papua's local cultures and governance systems, and meaningful access to information, participation and justice in the process of setting the new rules to manage globalization and local autonomy.

B.5. A Diversified Growth Strategy

As noted at the outset, a main issue for economies facing issues of peace and sustainable development is to bring about "*diversified growth*." This involved the combination of growth policies with measures for investment in manufacturing and service sectors, improved revenue sharing regimes among geopolitical units and social strata, and

building capacities to enact appropriate socio-economic and environmental policies to manage macro-policy risks. (*FAFO Institute, 2002*). Over the past twenty years the fastest-growing regions have also had the highest export growth. However, while increased trade can expand local markets, catalyze growth and create new opportunities for human development, trade expansion and growth does not necessarily ensure development gains for those who suffer the most. Indeed, expanded trade often leads to negative effects on communities excluded from the process of mainstream development. In making trade and growth benefit the poor, institutional and social policy measures can play a major role in determining whether and to what extent growth is matched with peace and sustainable development.

In this regard, another focus of the UNDP “Partnerships for Sustainable Development” programme will be to help develop a strategy for sustainable and equitable growth - a “Diversified Growth Strategy” (DGS). As a regulatory framework for local development and trade, DGS will be a requirement for all investments in the Birds Head region of Papua to promote peace and sustainable development. At the core of the DGS will be development a 10-year strategic plan (2005-2015) by local communities focused on:

- (1) Current economic, social and ecological conditions and trends.
- (2) Analysis of future drivers of change from export growth, population, migration, etc.
- (3) Development of four distinct scenarios of change from 2005-2015 and beyond based on peace and sustainable development variables.
- (4) Elaborating response options to address the economic, social and ecological issues critical to achieving peace and sustainable development in 2015 and beyond.

Once established, DGS policies will be enacted as regulations, and a capacity development programme will be established to help implement such policies through partnerships and governance measures, based on the partnership approach noted in previous sections. The strategy setting process will be based on a process of bridging state of the art global scientific models and local indigenous traditions. “Bridging epistemologies” will be a critical factor for success of new growth models in Papua, with particular emphasis on indigenous customs and traditional institutions empowered under OTSUS. The new regulatory systems enacted through DGS would follow a rights-based approach, focusing on “three pillars” of due process to be met throughout the development process:

- (1) *Access to Participation*: inclusive administrative decision-making processes related to execution of the Strategic Plan, management of development, trade and investment processes, and delivery of public services (including synergies between state and traditional governance systems),

- (2) *Access to Information*: public information required to understand the risks and benefits from development activities and public programmes, and capacities needed to meaningfully contribute to decision-making processes, and take part in monitoring social, environmental and economic impacts of investments; and
- (3) *Access to Justice*: improved dispute resolution mechanisms among government, civil society and business that address issues of formal compliance with Social and Environmental Impact Assessments for investments, and consideration to local customary norms and codes of conduct.

Policy responses will promote new strategic investments that promote diversified local growth; sustainable use of land, water and other ecosystem services; improved land management; dispute resolution systems with focus on both indigenous and state systems; managing migration patterns; improving education, health and other public service delivery, enhancing human resources, small and medium sized businesses and market access for poverty reduction, and expanded employment opportunities for indigenous communities.

Given the critical role of land and natural resources in reducing poverty and preventing conflicts in Papua, a special focus of DGS will be placed on improved land management through Spatial Planning, zoning and land permit systems consistent with the needs for achieving peace and sustainable development – sustainable resource development and sustainable approaches to infrastructure, urban and rural settlements, conservation of critical ecosystem functions, and compliance with customs and rights of indigenous peoples.

Finally, the commencement of a Capacity Development Programme (2008-2015) for long-term implementation of the Strategic Plan will be designed and launched to build capacities needed to ensure achievement of the DGS goals.

B.5.1. Utilizing revenues for diversifying the local economy and preventing conflict

Of critical importance within the DGS strategy will be identification of means to use future growth revenues from Tangguh LNG and other investments to ensure a diversification of the local economy and achieving appropriate revenue sharing regimes. As noted above, economic growth and trade are only a means to poverty reduction - not the ultimate goal. Higher state revenues make an important contribution to peace and sustainable development if they actually improve the lives of the poor. But revenue growth is not an end: it is a process that must involve equity and sustainability if gains are to be maintained in the long-term. Otherwise poverty and conflicts can be reproduced over time and across generations – in many regions poverty is often the result of structural inequalities and discrimination—based on class, race, gender and other identity based characteristics.

This issue has special relevance to Papua, with Indonesia's highest degree of inter-district inequality based on the CV Williamson Index (*UNSFIR, 2000*). It has also been shown in various contexts that economic factors related to revenue sharing can help give rise

to or prevent conflicts. Functional revenue sharing regimes can contain socio-economic tensions that promote conflict (*Bennett, 2002*). As noted above, equitable revenue sharing among regions is a major focus of OTSUS aimed at preventing horizontal conflicts among districts, and among central, provincial and local governments under the new OTSUS revenue sharing regime. Effective legal frameworks for revenue sharing are required to implement the OTSUS scheme.

This involves actions by government and business. Businesses involved in new investments should also promote actions that support diversified growth and revenue sharing regimes that maximize the chances of peace and sustainability. Business can also play an important role through dialogue with government and civil society to ensure that revenues from investments are used as strategic economic investments to support local peace and sustainable development initiatives. In this case of high-poverty areas like Papua, revenues from major investments should not result in continued dependence of local communities on extractive export-based development. Through supportive actions in the private sector, revenues can be used to diversify the local economy into other sectors. As noted above, a local economy with a diversified growth pattern will have greater resilience to deal with poverty reduction and conflict prevention challenges (*UNDP HDR, 2003*).

To support these goals, a series of policies options will be elaborated under DGS based on comparative assessments. Bennett has outlined various types of revenue sharing regimes, categorized into three broad types: (1) stabilization funds to promote stabilization and economy and immediate needs, (2) future generation funds to collect current revenues for future use, and (3) sustainable development funds for purposes of meeting social and environmental goals. In all revenue sharing regimes, partners must engage stakeholders, establish legitimate mechanisms for management of revenues such as third party trust funds, enforce provisions to ensure accountability and transparency, and have effective mechanisms for dispute resolution. This is particularly challenging in the context of Papua given the need to bridge such technical issues across cultural boundaries – between government, indigenous communities and business.

C. CONCLUSION

A series of world conferences and declarations over the last several years has elaborated our future challenge in clear terms: our ability to maintain peace and development gains this century will increasingly depend on our ability to manage globalization, extreme poverty, and a lack of sustainable development for the world's poor. To address this challenge, policies are being designed around the world to improve distribution of benefits from development, inclusion of communities in decision-making, and equality among sub-national groups.

Asia presents a particularly interesting set of challenges in this regard. The continued rapid growth of Asia's economies may well give rise to the world's largest free trade area over the next decade. At the same time, this rise to economic power is being met with an equally rapid surge of consumption and demand for commodities. In this process, energy in

particular is seen as critical to future growth and poverty reduction goals; Asia is projected to become the world's largest energy consumer by 2015, accounting for 35% of global demand.

With the continued decline of oil reliance and the emergence of natural gas as a major energy commodity, Indonesia serves as an important example in Asia given its standing as the region's top natural gas exporter. Following a period of systemic transition since 1998, the nation is attempting to regain its place in Asia's economic framework while also trying to translate a new wave of growth into development gains for Indonesia's poorer communities. An important event will be Indonesia's "Tangguh" Liquefied Natural Gas (LNG) operation in Indonesia's largest Province, Papua.

Tangguh stands as Indonesia's largest foreign investment in recent years, and plans to commence exports to East Asia and beyond around 2008. The new revenues could be a major boost to achieving poverty reduction in Indonesia, if new models can be established to meet the challenge of "globalization with a human face." A new autonomy framework stands as a landmark in offering greater powers to local government, a larger share of investment revenues, recognition of indigenous customs, and the empowerment of local institutions to voice aspirations and values in decision-making processes.

To engage this process, UNDP, government, civil society and business are commencing a long-term programme in 2004 to build local capacities to manage this change process for two key goals: (1) To support *partnerships* among government, business and civil society to engage cooperation for local development, and the business community's commitment to corporate responsibility, peace and sustainable development, under the framework of the Global Compact, and (2) To support *new models of local development* to ensure horizontal equity, peace and sustained poverty reduction through strategies for diversified growth away from a single minded focus on commodity exports.

Partnerships have assumed a prominent role in this process, as means to manage contentious policy choices surrounding investment and development decisions. By engaging business and civil society in this challenge, the hope is that together we can bring about "globalization with a human face" through a realization of enlightened self-interest among partners. In the local context, this will entail a systemic transition towards new capacities and policies that go beyond trade expansion, encompassing the function of partnerships as a catalyst of governance reform – an inclusive process to set the new local boundaries of globalization and development. This includes a new framework for local development whereby investments are planned and implemented in line with principles of sustainable development under frameworks such as the Global Compact.

New processes for decision-making and planning should also be locally relevant and takes into account indigenous approaches and concerns. Policy makers should avoid thinking that a single model defines the processes needed to sustain an expanding market. Indeed, the driving forces for this process go beyond market forces. Changes related to globalization also respond to a process of social, political and cultural change. Partnerships can be seen as relationships evolving into new forms of institutionalized, rule-based frameworks - social compacts for the new economy - to set the local boundaries of globalization.

A key target for new policy frameworks and processes should be towards managing the distributional conflicts and unsustainability inherent in many previous investment programmes. In less developed areas around the world, local economies are often heavily dependent on export of natural resource commodities. While natural resource exports may well be critical for such areas to commence a cycle of growth, experts have also shown that a diversification away from a sole dependence on commodity exports can improve chances of reaching overarching peace and sustainable development goals. This involves a combination of policies for investment in manufacturing and service sectors, improved revenue sharing regimes among geopolitical units and social strata, and building capacities to enact appropriate policies to prevent and manage social and environmental risks.

As a regulatory framework for local development, a diversified growth strategy would cover all ongoing and future investments in a region and attempt to gear them towards sustainable development approaches. This would promote: sustainable use of land, water and other ecosystem services; improved land management and licensing systems; dispute resolution with focus on synergies between indigenous and state systems; managing migration patterns; enhancing local businesses market access and expand equal opportunities for employment of indigenous communities.

Invoking partnerships and diversified growth to support sustainable development involves actions by government, civil society and business. The UN can play an important role in facilitating these undertakings through policy advise and capacity development services for achieving goals under the Global Compact and the Millennium Development Goals. Through corporate responsibility initiatives, business has a critical role in this partnership, to ensure that investments are planned in a strategic manner to prevent adverse impacts and the emergence of social tensions.

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