THE ROLES OF AGROINDUSTRY IN THE IMPROVEMENT OF REGIONAL ECONOMY AND INCOME DISTRIBUTION OF SOUTH KALIMANTAN PROVINCE, INDONESIA

A thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy

School of Economics
UNIVERSITY OF ADELAIDE
February 2003
# Contents

List of Figures ........................................................................................................ vi

List of Tables ........................................................................................................ vii

Abstract ................................................................................................................... x

Research Declaration ............................................................................................... xii

Acknowledgements .................................................................................................. xiii

1 Introduction ............................................................................................................ 1

1.1 Background .......................................................................................................... 1

1.2 Research Purposes .............................................................................................. 4

1.3 Outline of the Thesis ........................................................................................... 6

2 How Agriculture and Agroindustry Contribute to Economic Growth and Income Distribution ......................................................... 10

2.1 Introduction .......................................................................................................... 10

2.2 Economic Growth and Income Inequality ........................................................... 12

2.3 The Importance of Agricultural Sectors in Addressing Inequality ....................... 15

2.4 Agroindustry, Economic Development and Income Distribution ..................... 22

2.5 Conclusion ............................................................................................................ 27

3 Growth and Equality in Indonesia ....................................................................... 29

3.1 Introduction .......................................................................................................... 29

3.2 An Overview of Indonesia’s Development Policies ............................................. 30

3.3 Economic Crisis and Agriculture’s Opportunity ................................................... 46

3.4 The New Paradigm of Agricultural Development in Indonesia and Agroindustry .................................................................................................................. 52

3.5 South Kalimantan Province as the Case of Study ................................................ 59

3.6 Conclusion ............................................................................................................ 67
7 Agroindustries and Income Distribution in South Kalimantan

7.1 Introduction ........................................................................................................ 123
7.2 Agroindustry and Income ............................................................................... 124
7.3 Household Classification Based on Per-capita Income .................................. 127
7.4 The Roles of Agroindustry in Income Distribution ........................................ 129
7.5 Conclusion ....................................................................................................... 137

8 Development Strategy for Enhancing Growth with Equity in South Kalimantan Province

8.1 Introduction ....................................................................................................... 139
8.2 The Indicators for the Improvement of Regional Economy and Income Distribution .................................................. 140
8.3 Alternative Strategies ...................................................................................... 145
8.4 The Simulation Results of the Strategies Using Mixed Multiplier Model 148
8.4.1 Strategies Focussing on Capital ................................................................. 149
8.4.2 Strategies Focussing on Labour ................................................................. 151
8.4.3 Strategies Focussing on Capital and Low-income Households .................. 153
8.4.4 Strategies Focussing on Labour and Low-income Households .............. 155
8.4.5 Comparison of the Strategies .................................................................... 157
8.5 The Constraints of Agroindustrial Development ........................................... 162
8.6 The Supporting Roles of Government ............................................................. 167
8.7 Conclusion ....................................................................................................... 170

9 Summary ............................................................................................................ 174

References ............................................................................................................ 183
Appendix A. Marginal Expenditure Propensity Matrix of the SAM 1999 of South Kalimantan Province (19X19 Accounts) .......................................................... 199

Appendix B. Mixed Multiplier Matrix of the SAM 1999 of South Kalimantan Province ...................................................... 200

Appendix C. Mixed Multiplier Matrix of the Transformed SAM 1999 of South Kalimantan Province ......................... 201
Abstract

Although the contribution of agriculture to GDP and employment is inevitably decreasing along with economic growth, the importance of agriculture is increasing. Agriculture is no longer considered as a passive sector, from which resources are squeezed and extracted to support other sectors. Instead, it is believed that agriculture has significant roles in accumulating and self-sustaining growth. It has significant effects on industrialization and economic growth.

One possible strategy to improve agricultural sectors as well as the overall economic growth is by developing agroindustry, a rural based industry with business characters, which processes agricultural products. Agroindustry is strategic and has wider effects on family welfare and rural community. It can enhance growth and equity improvement at once. Agroindustry serves as a bridge for economic transformation, generate employment, support rural area, prevent urbanization, improve income for the poor, ensure food security, and help small-scale farmers to survive.

This research is designed to verify previous findings regarding the roles of agroindustry with empirical data using a social accounting matrix (SAM) framework. The South Kalimantan Province of Indonesia has been chosen as the focus of study in this research.
The results reveal that agroindustry suitable for maintaining economic growth, and also it is suitable for helping poor farmer to improve their welfare. Agroindustry has the highest value-added share in input and the highest value-added multiplier compared to other sectors in the economy. Agroindustry is a productive sector with high labor productivity and total factor productivity. Its linkage values show that despite the little linkages in input provision for other sectors, agroindustry has higher linkages for value added generation and income improvement. It has also a good shape in export-import structure with the highest net export and the highest ratio of export-import. The multiplier analysis also reveals that the accumulation of direct and indirect multiplier of agroindustry helps the poor households to earn more additional income through multiplier process. These facts confirm that agroindustry is suitable for income equality improvement and growth promotion.