1. (U) THIS IS THE THIRD OF THREE CABLES DISCUSSING RIAU PROVINCE. THE FIRST (REF B) CONSIDERED THE SPECIAL ECONOMIC REGIME ON BATAM. THE SECOND, BEING SENT SEPTEMBER, DISCUSSES CALTEX PETROLEUM OPERATIONS.

2. (U) SUMMARY: THE EAST SUMATRAN PROVINCE OF RIAU NOT ONLY PRODUCES MORE THAN HALF OF INDONESIA'S OIL, BUT IS SET TO BECOME THE COUNTRY'S LARGEST PRODUCER OF PLANTATION CROPS AND POSSIBLY A MAJOR INDUSTRIAL SEAT. THE RAPIDLY EXPANDING PLANTATIONS, WHOSE PRODUCTION OF PALM OIL AND RUBBER MAY WELL OVERTAKE THE PROVINCE OF NORTH SUMATRA'S BY THE MID 1990S, ARE PRIMARILY OWNED BY WEALTHY ETHNIC CHINESE INDONESIANS FROM JAKARTA AND MANNED BY JAVANESE MIGRANTS. SINGAPOREAN AND CONDIFIDENTIAL
DEVELOPMENT AND MAY SOON BECOME A MINORITY IN THEIR OWN
PROVINCE. END SUMMARY.

RIAU'S NON-OIL ECONOMY

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3. (U) RIAU'S OFFICIAL USD 2,000 PLUS AVERAGE ANNUAL PER
CAPITA INCOME FIGURE IS GROSSLY MISLEADING BECAUSE THIS
PROVINCE, LOCATED ACROSS FROM SINGAPORE AND THE TIP OF THE
MALAY PENINSULA, HAS TWO DISTINCT AND SEPARATE ECONOMIES.
CALTEX'S CONTRIBUTIONS TO INFRASTRUCTURE ASIDE, THE BLESSINGS
OF OIL (OVER TWO-THIRDS OF THE PROVINCIAL INCOME) FLOW DIRECTLY
TO JAKARTA WITHOUT IMPACTING ON THE LIVES OF MOST OF RIAU'S
THREE MILLION PEOPLE. THIS POPULATION, OFFICIALLY GROWING AT A
3.5 PERCENT CLIP, IN FACT TAKES IN 150,000 MIGRANTS
(INCLUDING 60,000 JAVANESE TRANSMIGRANTS AND 50,000 MINANGKABAUS
FROM THE MOUNTAINS OF WEST SUMATRA) OR FIVE PERCENT OF RIAU'S
CURRENT POPULATION, EACH YEAR. REAL NON-OIL PER CAPITA INCOME
APPEARED TO BE SLIGHTLY BELOW THE INDONESIAN NATIONAL AVERAGE
IN 1987, BUT CATCHING UP. ALTHOUGH STATISTICS ARE UNRELIABLE
AND UNAVAILABLE FOR THE LAST THREE YEARS, PROVINCIAL NON-OIL
REGIONAL PRODUCT, WHICH SUPPOSEDLY GREW AT A 5.5 PERCENT RATE
FROM 1983-87, HAS SINCE ACCELERATED RAPIDLY, ACCORDING TO LOCAL
BUREAUCRATS AND BOOSTERS.

4. (U) THE PROVINCE'S LARGEST NON-OIL ECONOMIC ASSET IS ITS
RAPIDLY DEVELOPING PALM OIL AND RUBBER PLANTATIONS. RELIABLE
STATISTICS ARE AGAIN HARD TO COME BY, BUT RIAU'S BAPPEDA TOLD
US THAT 800,000 HECTARES OF LAND HAVE NOW BEEN DISTRIBUTED
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FOR PLANTATION DEVELOPMENT. PALM OIL IS NOW PLANTED ON
200,000 HECTARES, WITH 400,000 ADDITIONAL HECTARES TO BE
CULTIVATED BY 1994 (RIAU EXPECTS TO PASS NORTH SUMATRA AS
INDONESIA'S LARGEST PALM OIL PRODUCER IN 1993). MORE THAN 75
PERCENT OF DESIGNATED PALM OIL ACREAGE HAS GONE TO PRIVATE
CONCERNS, WHICH ARE OVERWHELMINGLY JAKARTA CHINESE WITH FIRST
FAMILY CONNECTIONS. THE DOMINANT FIRMS ARE, ACCORDING TO
SEVERAL SOURCES, SINAR MAS AND INFO MAS, BOTH OWNED BY LIEM
SIOE LIONG. IN ADDITION TO PALM OIL, RUBBER IS BEING PLANTED
AS RAPIDLY AS POSSIBLE, AS IS HYBRID COPRA IN THE PEAT ALONG
THE SOUTHEASTERN COAST. PRESIDENT SOEHARTO IS REPORTEDLY
EXPECTED, LATER THIS YEAR, TO FORMALLY OPEN SEVERAL COPRA
FACTORIES ON THIS COAST, MANNED BY IMMIGRANTS FROM SOUTH
SULAWESI. FIFTY-FIVE PERCENT OF RIAU'S POPULATION NOW WORKS ON
TREE CROP PLANTATIONS. BAPPEDA OFFICIALS ADMIT, NONETHELESS,
UNCLASSIFIED

THAT MOST OF RIAU'S PLANTATION PRODUCTS WILL HAVE TO BE SENT TO SINGAPORE FOR FINAL PROCESSING FOR THE FORESEEABLE FUTURE.

5. (U) IN ADDITION TO PLANTATIONS AND THE SPECIAL CASE OF BATAM (SEE REF'S A AND B), RIAU IS EXPERIENCING WIDESPREAD ECONOMIC GROWTH. LOCAL POLITICAL LEADERS POINT TO EXPANSION OF THE INDAH KIAT PULP AND PAPER COMPLEX, WHICH WILL BECOME THE WORLD'S LARGEST PAPER FACTORY OF ITS KIND IN THE WORLD, TO ANNOUNCED PLANS BY MEDAN'S RAJA GARUDA MAS COMPANY TO CONSTRUCT A USD 1.5 BILLION PULP AND PAPER PLANT ON THE ROKAN RIVER, TO DOZENS OF NEW PLYWOOD FACTORIES, TO PLANS FOR HARBOR IMPROVEMENTS AT DUMAI AND PRAWANG AND FOR ANOTHER PORT ON THE MOUTH OF THE INDRAGIRI RIVER. TWO EXAMPLES OF ECONOMIC EXPANSION ARE URBAN DEVELOPMENT AND THE INDAH KIAT PULP AND PAPER PLANT.

DUMAI AND PEKANBARU

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6. (U) DUMAI, DESIGNATED FOR HARBOR EXPANSION, HAS THE ATMOSPHERE OF A COMPANY BOOM TOWN LINED WITH UNFINISHED ROADS CONFIDENTIAL

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INFO EMBASSY JAKARTA
AMCONSUL SURABAYA

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E.O. 12356: DECL: OADR
TAGS: ECON, EINV, PGOV, ID
SUBJECT: RIAU: BOOM TIME IN A PETRO-PROVINCE

REFS: A) SINGAPORE 2921 (NOTAL) B) 89 MEDAN 697 C) 88 MEDAN 568
     D) 89 JAKARTA 2542 E) 88 MEDAN 311
AND ROWS OF SHANTY STOREFRONTS. THE PERTAMINA REFINERY AND CALTEX STORAGE YARD ARE ITS MAJOR LANDMARKS. THE HARBOR CONTAINS ACTIVE BERTHS FOR NON-OIL AND GAS SHIPPING, AND THE NEWNESS OF MANY OF THE COMMERCIAL BUILDINGS AND HOUSES SUGGEST A BOOMTOWN AIR. SEVERAL KILOMETERS NORTH OF THE PORT, RIAU PLANS AN INDUSTRIAL PARK IN COOPERATION WITH JAPAN'S MITSUI CORPORATION.

7. (U) PEKANBARU, BY CONTRAST, HAS ALREADY BEGUN TO GROW BEYOND COMPANY-TOWN STATUS. THE MONUMENTS TO THE CALTEX PRESENCE – A MAJOR BRIDGE, ATHLETIC STADIUMS, CULTURAL CENTERS AND EDUCATIONAL INSTITUTIONS – STAND IN COUNTERPOINT TO THE MARKET AREAS AND FACTORIES THAT APPEAR TO BE THE REAL CENTER OF CONFIDENTIAL

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TOWN ACTIVITY. SEVERAL CHURCHES AND MOSQUES – AND CHINESE-OWNED SHOPS – GIVE EVIDENCE OF THE ETHNIC DIVERSITY THAT HAS RESULTED FROM THE POPULATING OF THE CITY BY MIGRANTS. IN FACT, IMIGRATION HAS BEEN SO RAPID THAT PEKANBARU, A CITY THAT HAS GROWN TEN FOLD IN LESS THAN 30 YEARS, IS NOW MORE THAN 50 PERCENT ETHNIC MINANG, 5 PERCENT CHINESE, 5 JAVANESE, AND ONLY 35 PERCENT NATIVE MALAY. A RAPID EXPANSION OF BANKS (IN 1990, 8 NEW BANKS IN PEKANBARU, WITH ANOTHER 13 SCHEDULED TO OPEN THIS YEAR) AND HOTELS (3 MAJOR NEW HOTELS, INCLUDING POSSIBLY A HILTON IN ALLEGED COOPERATION WITH AN UNIDENTIFIED MEMBER OF THE FIRST FAMILY) IS UNDERWAY AMONG NEW BUSINESSES IS A CHINESE-OWNED COMPUTER COMPANY – SAID BY THE OWNERS TO BE THE FIRST IN SUMATRA – WHICH IS ASSEMBLING CIRCUIT BOARDS FOR PERSONAL COMPUTERS, AS WELL AS MARKETING PC'S AND SOFTWARE. THE COMPANY RECEIVES INVESTMENT AND KNOW-HOW FROM A TAIWAN PARTNER.

PT INDAH KIAT A MAJOR TAIWAN INVESTMENT

8. (U) A MORE SUBSTANTIAL SHOW OF TAIWAN INVOLVEMENT IN THE PROVINCE IS THE PT INDAH KIAT PAPER PULP AND PAPER PLANT. LOCATED IN CALTEX COUNTRY ALONG THE SIAK RIVER 30 KM NORTH OF PEKANBARU, THE PLANT IS TWO-THIRDS OWNED BY THE POWERFUL SINAR MAS GROUP, ONE THIRD OWNED BY THE TAIWANESE CHUNG HUA PULP COMPANY. THE 400 HECTARE COMPLEX PROCESSES TIMBER CUT FROM TWO LARGE PLANTATIONS WITH A TOTAL AREA OF 465,000 HECTARES. THE OPERATION IS MODERN, WITH SPINOFFS INCLUDING RUBBER REMILLING, CHEMICAL TREATMENT AND SEVERAL PAPER PRODUCTION LINES, ONE OF WHICH, AFTER A USD 120 MILLION EXPANSION IS COMPLETE, WILL BE
THE WORLD'S LARGEST, ACCORDING TO INDAH KIAT MANAGERS. INCOMING EQUIPMENT AND OUTGOING PRODUCTS ARE FREIGHTED BY RIVER ON 6,000 TON OCEAN-GOING VESSELS. PULP IS SENT TO SISTER PAPER CONFIDENTIAL

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PLANTS, ONE NEAR JAKARTA AND ONE AT TJIWU KIMIA. MOST FINISHED PAPER IS EXPORTED DIRECTLY TO SINGAPORE FOR TRANSSHIPMENT. THE TRIP TO JAKARTA TAKES 36 HOURS, TO SINGAPORE, 24 HOURS.

9. (U) CONSTRUCTION ON THE ORIGINAL PAPER FACTORY NEAR JAKARTA BEGAN TWELVE YEARS AGO, BOUGHT SECOND HAND FROM CHUNG HUA, AND WENT INTO OPERATION IN 1983-4. THE RIAU PLANT WAS BUILT IN 1986 WITH NEW EQUIPMENT. CURRENT EXPANSION IS EXPECTED TO BE COMPLETED IN 1993. THE PLANT CONTAINS A POTPOURRI OF BIG NAME FOREIGN EQUIPMENT IN A COMPLEX LAYOUT, EVIDENCE OF SOPHISTICATED PLANNING THE MANAGERS NOTED THAT OTHER TAIWAN INVESTMENT HAS GONE INTO RIAU'S PLYWOOD FACTORIES.

THE SINGAPORE CONNECTION

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10. (C) WHILE JAKARTA CHINESE PROVIDE THE BULK OF INVESTMENT IN RIAU'S PLANTATIONS AND CALTEX PRODUCES THE OIL, SINGAPORE IS RIAU'S ECONOMIC HUB. RIAU'S 300,000 CHINESE, CONCENTRATED ALONG THE STRAIT OF MALACCA, HAVE LONG BEEN VIEWED LOCALLY AS AN ECONOMIC AND CULTURAL EXTENSION OF SINGAPORE. SINGAPORE'S ROLE WAS OPENLY ACKNOWLEDGED AS LATE AS 1959 WHEN THE SINGAPORE DOLLAR WAS RIAU'S LEGAL CURRENCY. FOR A HUNDRED YEARS ETHNIC CHINESE IN SINGAPORE HAVE FINANCED TRADE IN RIAU'S FISH, CHARCOAL, TIMBER, AND OTHER PRIMARY PRODUCTS IN EXCHANGE FOR CONSUMER GOODS. ASKED BY THE P.O. ABOUT "SMUGGLING" IN THE AREA, THE GOVERNOR SMILED AND SAID, "YOU MEAN TRADITIONAL TRADING PATTERNS".

11. (C) AS RIAU HAS DEVELOPED, SINGAPORE CAPITAL, EXTENDED THROUGH PERSONAL AND FAMILY RELATIONSHIPS, HAS BEEN INVESTED IN TIMBER EXPLOITATION, PLYWOOD FACTORIES, SHRIMP PLANTS, AND SO FORTH. HOWEVER, THE EXTENT OF SINGAPORE INVESTMENT IS, AS THE HEAD OF RIAU'S INVESTMENT BOARD SAID, "INCALCULABLE", IF FOR NO

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OTHER REASON THAN BECAUSE, IT IS "UNTRACEABLE". THE AGREES THAT EXTENSIVE SINGAPORE FINANCING IS INVESTED IN RIAU EITHER THROUGH THE LOCAL CHINESE, OR, AS POINTED OUT, THROUGH CHINESE IN JAKARTA. AN EXAMPLE OF THE PREVAILING PATTERN WAS PROVIDED BY PROVINCIAL INVESTMENT OFFICIALS, WHO NOTED THAT SINGAPORE INTERESTS OFFICIALLY OWN ONLY ONE OF RIAU'S DOZENS OF PLYWOOD FACTORIES, WHEN IT FACT THEY PROBABLY OWN 80 PERCENT OF THEM. SHRIMP AND OTHER PROCESSING FACTORIES, MOVING SOUTH TO MEET SINGAPORE'S DEMAND FOR FRESH SEAFOOD, ARE REPORTEDLY LARGELY FINANCED BY SINGAPORE AND MEDAN CHINESE INTERESTS.

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12. (U) IN ADDITION TO PROVIDING CAPITAL AND PROCESSING OR TRANSSHIPMENT OF RIAU PRODUCTS, SINGAPORE PROVIDES SPARE PARTS FOR PLANTATIONS AND FACTORIES, AS WELL AS CONSUMER GOODS FOR RIAU RESIDENTS (THE MALAYSIAN CONSUL NOTED THAT ELECTRONICS AND SPORTS EQUIPMENT SMUGGLED FROM SINGAPORE ARE CHEAPER IN PEKANBARU THAN IN SINGAPORE). THE ONE AREA WHICH SINGAPOREAN
UNCLASSIFIED

CAPITAL APPEARS TO HAVE AVOIDED IS DIRECT INVESTMENT IN THE RAPIDLY EXPANDING PLANTATIONS. ECONOMIC TIES ARE STRONG ENOUGH THAT SINGAPORE IS RUMORED TO BE CONSIDERING ESTABLISHMENT OF A CONSULATE IN RIAU, SPECULATION WHICH WAS RECENTLY BOOSTED BY SINGAPORE AMBASSADOR BARRY DESKER'S MARCH 1990 VISIT TO THE PROVINCE.

13. (C) RIAU'S CHINESE RESIDENTS' TIES TO SINGAPORE AND THEIR PERCEIVED CLANNISHNESS, HAVE AROUSED CONSIDERABLE LOCAL RESENTMENT. [ ] FLATLY LABELED THE CHINESE "TRAITORS" IN A CONVERSATION WITH THE P.O. THE LOCAL [ ] HOWEVER, SAID HE DOES NOT HAVE DETAILED INFORMATION ON CHINESE SMUGGLING ACTIVITIES. HE DOUBTS THAT CHINESE ARE INVOLVED IN DRUGRUNNING BEYOND THE TRADITIONAL TRANSPORTATION OF ACEHNESIAN Ganja. He also played down the September 1989 anti-Chinese riots in Bagan Si-API-API, ascribing them to resentment against a nearby village of prostitutes rather than the local Chinese.

POLITICS AND THE MALAYS

14. (C) IN 1985, IN THE ONLY PUBLIC REVOLT BY A PROVINCIAL ASSEMBLY DURING THE SOEHRATO ERA, RIAU'S ASSEMBLY REJECTED CONFIDENTIAL

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JAKARTA'S CANDIDATE FOR GOVERNOR, RETIRED JAVANESE GENERAL IMAMUNANDAR, WHO HAD OFFENDED MALAY TRADITION AND CULTURE, IN FAVOR OF A NATIVE MALAY. JAKARTA, NONETHELESS, REAPPOINTED MANANDAR AS GOVERNOR. HE SUBSEQUENTLY DIED IN SURABAYA, ALONG WITH HIS WIFE, A FEW YEARS LATER.

15. (U) THE CURRENT GOVERNOR HAS RECEIVED THE FULL BACKING OF GOLKAR, WHICH, IN THE 1987 ELECTIONS, INCREASED ITS SHARE OF THE VOTE TO 87 PERCENT, WHILE THE ISLAMIC PPP PARTY RECEIVED
ONLY 15 PERCENT AND THE PDI 5 PERCENT. GOLKAR LEADERS BELIEVE THAT THE PPP WILL NOT BE ABLE TO CHALLENGE GOLKAR IN RIAU IN THE 1992 ELECTION FOR TWO REASONS. FIRST, NEW PPP LEADER ISMAIL HASAN METAREUM, WHO HAD RECENTLY LED A PPP RALLY IN PEKANBARU, IS FROM ACEH. SECOND, PPP SUPPORT IS PRIMARILY CONFINED TO ETHNIC MINANGKABAU IMMIGRANTS FROM WEST SUMATRA. INDEED, GOLKAR APPEARS CONFIDENT THAT IT WILL MARGINALLY INCREASE ITS ALREADY OVERWHELMING LEAD AND ENHANCE ITS CONTROL OF THE ASSEMBLY, WHERE IT NOW HOLDS 29 OF THE 45 SEATS (ABRI 9, PPP 5, PDI 2).

16. (C) THE NATIVE INHABITANTS OF RIAU, THE MALAYS, OCCUPY THE BOTTOM OF THE PROVINCIAL SOCIO-ECONOMIC STRUCTURE AND SEEM LIKELY TO CONTINUE TO DO SO. EXPLAINED THIS AS A MATTER OF CULTURE. HE SAID, FOR EXAMPLE, THAT MALAYS WHO SAVE SOME MONEY, INSTEAD OF INVESTING, WILL REPEATEDLY UNDERTAKE THE HAJJ AS LONG AS THEY CAN AFFORD IT. ECHOED THIS VIEW IN A SEPARATE CONVERSATION, NOTING THAT HIS
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INFO EMBASSY JAKARTA
AM EMBASSY SINGAPORE
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PEOPLE PLACE SO MUCH EMPHASIS ON FAMILY AND RELIGIOUS

UNCLASSIFIED
UNCLASSIFIED

SENTIMENTS THAT THEY CANNOT COMPETE ECONOMICALLY WITH OTHER ETHNIC GROUPS, PARTICULARLY THE AGGRESSIVE AND ENTREPRENEURIAL MINANG AND CHINESE. A SAFETY VALVE, HE ADDED IS THAT RIAU MALAYS MAINTAIN EXTREMELY CLOSE TIES WITH THEIR KINSMEN IN MALAYSIA, AND IF FRUSTRATED OCCASIONALLY SLIP AWAY TO FIND EMPLOYMENT ACROSS THE STRAIT. ECHOED CULTURAL EXPLANATIONS FOR THE MALAYS' RELATIVE POVERTY, BUT SAID THAT NON-GOVERNMENTAL ORGANIZATIONS HAVE BEEN ESTABLISHED TO "CHANGE THE MOTIVATIONS OF THE MALAYS SINCE THE MALAYS DON'T TRUST THE GOVERNMENT".

17. (C) MALAY DISTRUST AND RESENTMENT APPEARS TO BE AS CONFIDENTIAL

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INTENSE NOW AS IT WAS FIVE YEARS AGO, WHEN MANY MALAYS BELIEVED THAT IT WAS THEIR DUKUNS WHO HAD BROUGHT ABOUT THE DEMISE OF EX-GOVERNOR MUNANDAR AND HIS WIFE. IN CONTRAST TO ACEH, HOWEVER, THERE ARE NO INDICATIONS OF VIOLENT OPPOSITION TO THE INDONESIAN GOVERNMENT. NEITHER DO THE MALAYS SHOW A TENDENCY TO UTILIZE ISLAM AS A VEHICLE FOR EXPRESSING THEIR ECONOMIC OR POLITICAL GRIEVANCES.

PERCIVAL

UNCLASSIFIED