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ACEH'S SOCIO-ECONOMIC CONDITIONS PRIOR TO AND FOLLOWING THE 2004 TSUNAMI

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Abstract

On December 26, 2004, an extremely strong earthquake with a magnitude of 9.1 on the Richter scale and the resulting tsunamis devastated the South Asia region. Of 12 nations hit by the tsunami, Indonesia suffered the greatest. The overall fatalities were estimated at 126,741 people, 93,285 people missing, and 500,000 people displaced. In Indonesia, Aceh Province was affected the worst, while Nias Island in the Province of North Sumatra was affected to a much lesser extent. The earthquake and tsunami wave damaged most of Aceh's coastal areas, infrastructure, settlements, and public facilities such as schools, health centers, market places, and government buildings. This disaster also affected the social and economic life of the people. This paper examines Aceh's social and economic conditions before and following the 2004 tsunami. This study indicates that the tsunami caused a large number of casualties and heavily affected Aceh's economy. The tsunami turned out to be a blessing in disguise where the Indonesian government and the Free Aceh Movement (GAM) then agreed to sign a peace accord in 2005. On economy, Aceh's economy has been mainly supported by the reconstruction effort and the availability of reconstruction funds. As the reconstruction effort came to end, Aceh's economy then slowed down.

Keywords: Tsunami, socio-economy, infrastructure, redevelopment efforts

Introduction

On December 26, 2004, an extremely strong earthquake with a magnitude of 9.1 on the Richter scale and the resulting tsunamis devastated the South Asia region. Of 12 nations hit by the tsunami, Indonesia suffered the greatest. The overall fatalities were estimated at 127,000 people, 93,285 people missing, and about 500,000 people displaced [1]. In Indonesia, Aceh Province was affected the worst, while Nias Island in the Province of North Sumatra was affected to a much lesser extent.

The earthquake and tsunami wave damaged most of Aceh's coastal areas, infrastructure, settlements, and public facilities such as schools, health centers, market places, and government buildings. This disaster also affected the social and economic life of the people as well as their psychological condition [2]. It was

estimated that to rebuild the areas affected by the disaster in Aceh and Nias, the government of Indonesia needed approximately USD 4.9 billion. Pledges made by aid agencies surpassed the minimum required to rebuild to pre-tsunami level by 2.3 billion. Eventually 93% of the pledges were converted into real funding. Funds (in total USD 6.7 billion) came from three main sources: NGOs (USD 2.4 billion), donor agencies (USD 2.2 billion), and the Government of Indonesia (USD 2.1 billion) [3].

The government of Indonesia anticipated the reconstruction and rehabilitation phase after the disaster by initiating a master plan and establishing a special agency to coordinate the mitigation of the disaster, i.e. the Reconstruction and Rehabilitation Agency of Aceh and Nias (in Indonesian is known as *Badan Rehabilitasi dan Rekonstruksi Aceh dan Nias* or called BRR for short) [2].

Aceh's Social and Economic Conditions Prior to and Following the Tsunami

Aceh has undergone significant changes during the post-military conflict (2005-present) and post-tsunami reconstruction era (2009-present). The reconstruction effort and the peace treaty between the government of Indonesia and the Free Aceh Movement (GAM) on August 15, 2005, have led to a lot of challenges and a number of opportunities for Aceh. Below is the overview of Aceh's social and economic conditions prior to and following the tsunami

Social conditions. Based on population census in 2010, BPS – Statistics Aceh reports that Aceh has a population of 4,486,570, consisting of 2,243,578 male and 2,242,992 female [4]. Prior to the tsunami in 2004, BRR reports the population stood at 4,297,485 [1]. According to BRR, the total number of casualties caused by the disaster was about 127,000, with an additional 93,285 declared missing. About 500,000 survivors lost their homes, while 750,000 people lost their livelihoods [1].

The earthquake and tsunami wave striking on December 26, 2004 devastated most of Aceh's coastal areas and also affected socio-cultural and political conditions. From the physical damage standpoint, 15 *kabupatens/kotas* were devastated, namely: *Kabupaten Aceh Barat, Kabupaten Aceh Barat Daya, Kabupaten Aceh Besar, Kabupaten Aceh Jaya, Kabupaten Aceh Selatan, Kabupaten Aceh Timur, Kabupaten Aceh Utara, Kota Banda Aceh, Kabupaten Bireun, Kota Lhokseumawe, Kabupaten Nagan Raya, Kabupaten Pidie, Kota Sabang, Kabupaten Simeuleu, and Kabupaten Singkil. Kota Banda Aceh, Kabupaten Aceh Jaya, Kabupaten Aceh Barat, and Kabupaten Aceh Besar* are the *kabupatens* or *kotas* severely affected by the tsunami disaster in light of death tolls and damage to infrastructure [6].

The major socio-cultural issues arising from the earthquake and tsunami were associated with the great number of victims, damages to socio-cultural facilities, lack of food and shelters for victims, invalid demographic information, vulnerable situations mostly among women and children, and traumatic feelings among the victims. The responses to these issues included development of temporary housing for refugees, nurturing orphans, development of food supplies for victims, restoration of socio-cultural lives, the data collection on population, sex, and age structure, improvement of socio-economic conditions of victims, overcoming threat of sexual harassment and trafficking among refugees, and services and counseling for traumatic victims [2, 7].

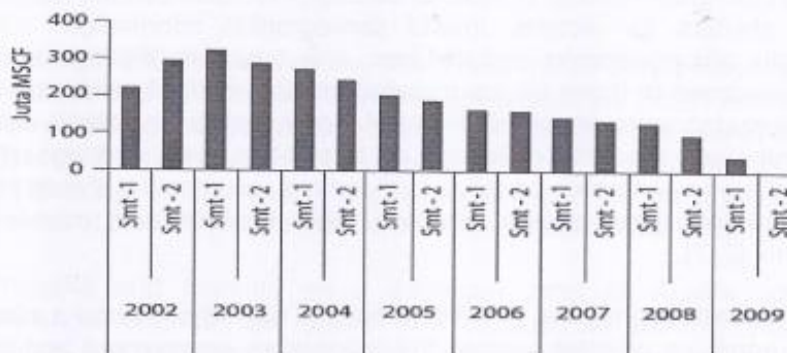
Aside from its devastating impact, the Aceh tsunami turned out to be a blessing in disguise. The horrifying disaster pushed the Indonesian government and the Free Aceh Movement (GAM) to sit together to end the prolonged military conflict. The desire to help victims of the disaster and to rebuild the province arose which in turn

resulted in the strong wish for ending the conflict [8]. Hence, a series of negotiations took place which eventually concluded in a peace accord signed by both parties facilitated by the Finnish organization Crisis Management Initiative in Helsinki on August 15, 2005 [8]. Looking back to the former time, the centralized and authoritarian system during Soeharto's New Order regime was viewed as the cause for injustice in Aceh which led to the emergence of GAM (in 1976) and other separatist movements in various regions of Indonesia. In the context of Aceh, the situation was then triggered more and more by the increase in dissatisfaction of several communities' elements over the distribution of profits from new natural gas and oil production in the eastern coastal area of this province and the intensification of the transmigration program in Aceh [8].

As a matter of fact, Aceh province's fight against the Indonesian government had also happened before GAM emerged. In 1953, Daud Beureueh led the Darul Islam Movement/Islamic Army of Indonesia (DI/TII) in Aceh fight for an autonomous Aceh within a wider Islamic state of Indonesia. Therefore, Aceh's DI/TII was, by its nature, different from GAM which aimed for independence [9]. This movement which ended in 1962 was also a form of protest toward the government of Indonesia for making Aceh part of the North Sumatera Province judicial area which distinctly ignored Aceh's huge contribution in supporting the existence of the still young Republic in 1945 [8].

Economic Conditions. Aceh's economy will be examined by relying upon several indicators of Gross Regional Domestic Product (GRDP), economic structure, economic growth, and employment and inflation. The depiction of Aceh's economy below is based on data processed from various sources including BPSs – Statistics Indonesia and Aceh, World Bank, Bank Indonesia, Multi Donor Fund, BRR, and Bappeda Aceh.

Gross Regional Domestic Product (GRDP). In the past, Aceh's main income were in the oil and gas sector including industries linked to oil and gas production. Up until 2004, before the tsunami struck Aceh on December 26, 2004, this source accounted for about 40% of the province's GRDP. In line with rapidly depleting oil and gas production in the past few years, Aceh's GRDP resulting from oil and gas sector has been declining steeply. In 2009, the oil and gas sector only contributed about 20% to GRDP [10,11]. This was one of factors causing Aceh's GRDP to fall down in 2009 and put Aceh with annual income/capita of Rp. 16.9 million (Rp 20.3 million on average in Indonesia) as the 6th poorest province among 33 provinces in Indonesia. From the standpoint of poverty level, it was also reported that in that year, 21.8% of 4.3 million Aceh's people was categorized poor [12]. Overall, gas production in Aceh from 2002 through mid 2009 is presented in figure below.



*Mscf : Million Square Cubic Feet

Source: Aceh Economic Update February 2010, Bank Indonesia and Bappeda Aceh, 2010

Fig. 1. Gas production in Aceh, 2002 – mid 2009

In the long run, the revenue from petroleum and natural gas will continue decreasing. Based on the projection, it is indicated that in the years to come this resource will steadily have little contribution to this province's revenues. Given that, Aceh's economy will have little future, unless non-oil sectors are developed. In the past few years, Aceh's economy has also been mainly supported by the reconstruction effort and the availability of reconstruction funds. As the reconstruction effort came to end, Aceh's economy then slowed down [13, 14].

In terms of Aceh's economic structure, during the period of 2000-2004, the share of primary activity consisting of the sectors of agriculture, livestock, forestry, fishery, mining, and quarrying to Aceh's Gross Regional Domestic Product (GDRP) reached 44% to 51%. The share of secondary activity consisting of the sectors of manufacturing, construction, and utilities (water supply and electricity) ranged between 23% and 30%. While the tertiary activity (trade, hotel, and restaurant sector, transportation and communication sector, banking and financial services sector, and services sector), during that period ranged between 22% and 32%. The share of mining sector in the year 2000 was the highest in Aceh's GDRP (31%) followed by the manufacturing sector (25%) and the agriculture sector (18%) [11].

The share of mining sector, during the period of 2000-2003 was the highest in GRDP. In 2001, the production level of petroleum and natural gas reached the lowest point (22.2%) because of the culmination of military conflict. Subsequently, in 2004, the economic structure changed significantly, agriculture contributed the highest (22.83%) to GRDP [11].

After the tsunami, Aceh's GDRP at current market prices still went up from year to year. In 2005, Aceh's GDRP was 56.95 trillion Rupiahs, while in 2009 it increased to 70.76 trillion Rupiahs. During the period of 2005-2009, the primary sector still provided the biggest contribution to GDRP. This sector accounted for between 45 – 52% of the province's GDRP. However, the mining sector share went down steadily due to the decline in revenue from petroleum and natural gas as mentioned earlier. In this period, starting from 2005 until 2009, the share of the agriculture sector in Aceh's GRDP became the largest, except in 2006 when the mining and quarrying sector was the largest (28.30%) [10, 15,16]

The share of secondary activity significantly declined during the period from 2005-2009, contributing only 18-21% to GRDP. The share of the manufacturing sector (its biggest share linked to oil and gas production), which in the previous time always be the biggest contribution in this activity, declined from 18.01% in 2005 to 11.20% in 2009. This happened as a consequence of the decreased production of petroleum and natural gas overtime. While the share of tertiary sector to GRDP in this period was around 28%-35%, showing the positive trend compared to the period of 2000-2004 [10,15,16].

The rehabilitation and reconstruction process following the tsunami shifted the structure of Aceh's economy. From 2007 until 2008, the trade, hotel, and restaurant sector became the third largest sector contributing to GRDP (2007: 12.98%, 2008: 13.95) behind the agriculture and mining and quarrying sectors. The trade, hotel, and restaurant sector replaced the manufacturing sector which had held the position for long period of time. In 2009, the trade, hotel, and restaurant sector went up to the

second biggest contributor (14.73%). In the same year, the agriculture sector accounted for 27.40% of GRDP, while the mining and quarrying sector accounted for 11.59% [10,15,16].

In 2009, other sectors which had significantly contributed to GRDP besides the aforementioned sectors were the services sector (11.80%), the manufacturing sector (11.20), the transportation and communication sector (10.67%) and the construction sector (9.67%). The increased share of all of these sectors was also a logical consequence of the recovery and development activities taking place in the post-tsunami reconstruction process [10,15,16].

Economic Growth. Previously, the economic growth of Aceh Province depended highly on the oil and gas sector. Due to declining oil and gas reserves in this area, in 2004, oil and gas mining decreased by 24% while oil and gas manufacturing decreased by 12%. This led the growth rate of Aceh's GRDP to decline by 10% in 2004. In 2005, Aceh's economic growth totally fell down. Following the tsunami, the growth of many sectors decreased. The agriculture sector decreased by 3.89%, the mining and quarrying sector 22.62%, the manufacturing industry sector 22.30%, the electricity and water supply sector 1.95%, the construction sector 16.14, and the banking and financial services 9.53%. Only three sectors showed positive growth, i.e. the trade, hotel and restaurant sector (6.64%), the transportation and communication sector (14.39%), and the services sector (9.65%). Due to the tsunami, Aceh's economic growth in 2005 declined by 10.12%. [10,11]

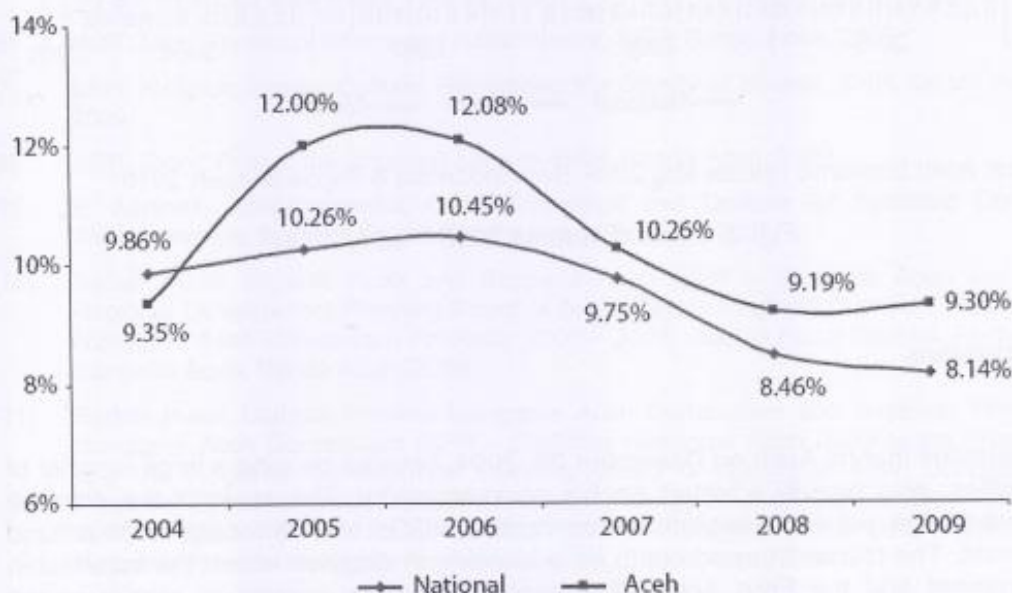
In 2006, overall Aceh's economy grew. Although the decline of the oil and gas sector continued, the positive growth occurred in other sectors. Consequently, economic growth reached 1.56%. Unfortunately, in 2007, 2008, and 2009, economic growth contracted again by 2.36%, 5.27%, and 5.58%, respectively. The decline in economic activities of the oil and gas sector and the manufacturing sector in these years was the main factor. In 2008, the construction sector also contracted by 0.85 %, while other sectors grew. In 2009, all sectors excluding oil and gas sector and manufacturing sector (which contracted by 49.24% and 6.06% respectively), grew. However, Aceh's economic growth contracted by 5.58%. In this year, the electricity and water supply sector grew 27.07%, banking and financial services 9.61%, transportation and communication 4.86%, services 4.68%, trade, hotel, and restaurant 3.28%, construction 3.16%, and agriculture 3.09% [10, 15, 16].

Although Aceh's economy contracted for the last couple of years (due largely to the decrease in Aceh's oil and gas reserves), prospects for Aceh's economy are still promising. The non oil and gas sectors have been growing from 2002 until 2009. The growth of these sectors peaked in 2006 and 2007 at 7.70% and 7.23% respectively because during these years, massive reconstruction programs took place and the Aceh's political atmosphere had been more conducive after the peaceful agreement between the Free Aceh Movement and the government of Indonesia. However, after the post-tsunami reconstruction was over in 2009 and given the decline of oil and gas production, it will be difficult for the Aceh government and policy makers to boost the non-oil and gas sectors [10,11,15,16].

Employment and Inflation. In spite of its huge contribution to the province's GRDP, before the tsunami, the oil and gas sector employed less than 5% of the workforce. The agriculture, forestry, hunting & fishery sector employed about 60% of the workforce. However, the latter sector has been continuing to decline from year to year. In 2009, it attracted 51% of the workforce, remained far higher than at the national level which reached 41%. Other sectors which employed large workforce in this year included services (18%) and trade (15%) [14].

In general, in the context of Aceh, the shift from the agriculture to other sectors like services, trade, and industry is partly because of the reconstruction effort after the tsunami. It is also a result of improved security conditions in remote areas, as well as assistance to small to medium-sized enterprises provided by NGOs and government during the reconstruction effort [13].

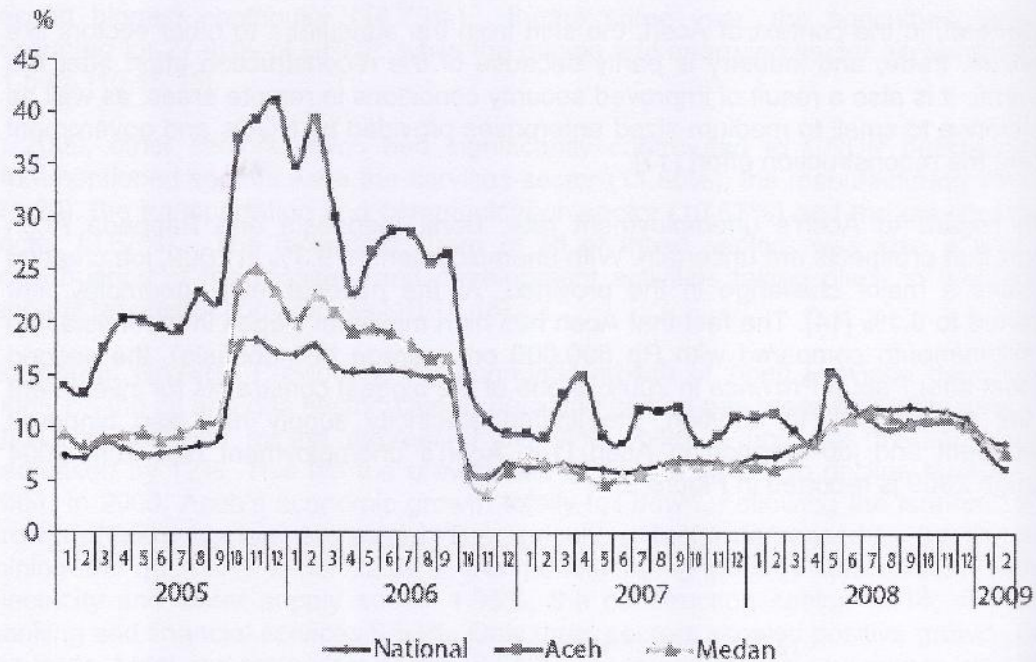
With regard to Aceh's unemployment rate, Bank Indonesia and Bappeda Aceh report that prospects are uncertain. With unemployment at 9.3% in 2009, job creation remains a major challenge in the province. At the national level, unemployment declined to 8.1% [14]. The fact that Aceh has high minimum wages in Indonesia (Rp 1 million/month compared with Rp 800.000 on average in Indonesia), the second highest after Papua Province in 2009, is one of the biggest constraints for investment in the region [14]. In addition, the limited electricity supply has also hindered investment and job creation in Aceh [13]. Aceh's unemployment rate from 2004 through 2009 is reported in Figure 2.



Source: Aceh Economic Update February 2010, Bank Indonesia & Bappeda Aceh, 2010

Fig. 2. Unemployment in Aceh, 2004-2009

The inflation rate in Aceh had been far higher than the national rate for several years during the peak of reconstruction effort (2005-2007). Inflation reached the highest rate, more than 40% in 2005. In 2008, in line with the slowdown of the reconstruction effort, restored supply networks, and Aceh's economy, inflation became relatively low. Despite this condition, the trend could change in the future due to Aceh's insufficient infrastructure along the west coast, rising commodity prices at the global level, and the Rupiah's stronger currency [14]. In February 2009, Year on Year inflation (inflation in February 2009 compared to that in February 2008) increased by 5.9%, lower than the national level of 8.6% as well the neighboring province North Sumatera of 7.7% [13]. Inflation in Aceh during the period of 2005- early 2009 can be seen in Figure 3.



Source: Aceh Economic Update May 2009, Bank Indonesia & Bappeda Aceh, 2010

Fig. 3. Inflation in Aceh 2005 – early 2009

Conclusions

The tsunami that hit Aceh on December 26, 2004, besides causing a large number of casualties, also heavily affected Aceh's socio-economy. The scale of the damage triggered huge aid and assistance from various NGOs and donor agencies around the world. The tsunami turned out to be a blessing in disguise where the Indonesian government and the Free Aceh Movement (GAM) then agreed to sign a peace accord in 2005, after about thirty years of the military conflict. The recovery and development activities taking place in the post-tsunami reconstruction process helped Aceh's economy. However, after the post-tsunami reconstruction was over in 2009 and given the decline of oil and gas production, Aceh's economy will have little future, unless non-oil sectors are developed. In the past few years, Aceh's economy has been mainly supported by the reconstruction effort and the availability of reconstruction funds. As the reconstruction effort came to end, Aceh's economy then slowed down.

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