The Indonesian Journal of Development Planning
July 2026, Vol 10, No. 2, i - iv
https://doi.org/10.36574/jpp.v10i2.871

Editorial Note

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The City Left Behind Nickel's Industrial Boom

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Over the past decade, Morowali and Weda have embodied the most spectacular face of Indonesia's industrialisation. Districts that barely registered on the national economic map have become the new epicentre of the world's nickel-processing industry. In Morowali, GDP growth has averaged well above 20% a year. The district's contribution to the economy of Central Sulawesi province has surged from roughly 5% to nearly 45%. This is not ordinary growth. It is a structural transformation of a kind rarely seen in the history of Indonesian regional development.

The numbers tell a striking story. Morowali's regional GDP has multiplied several times over. Investment has poured in. Factories, ports, smelters, power plants, production roads and industrial supply chains have risen with barely a pause. Weda, in North Maluku, follows a near-identical pattern. Nickel-based industrial zones have ceased to be accessories to the national economy; they are now its driving force within the minerals downstream strategy.

The cake is undeniably large. PT Indonesia Morowali Industrial Park (IMIP) has reported spending roughly 9 trillion rupiah (around $550m) a year on wages for local workers. With around 90,000 local employees, that works out to an average of some 8.3m rupiah per person per month—well above both the district minimum wage and Central Sulawesi's provincial floor. For a region that once depended on farming, fishing and petty trade, this represents a genuine social leap.

Yet the size of the cake is only half the question. The more important half is who gets to eat it, how it is shared and whether it will last. At that point the nickel boom runs into a paradox. It has succeeded in generating rapid economic growth while failing to create an ecosystem of development that is liveable, equitable and sustainable.

Industry Without a City

Bahodopi is the clearest illustration. The sub-district that surrounds IMIP's compound has grown into an industrial hub without growing into an industrial city. Tens of thousands of workers have arrived. Boarding houses have mushroomed. Food stalls, repair shops, laundries, rental rooms, small shops and informal transport have spread rapidly. But the growth more closely resembles a spontaneous explosion than a planned process of urbanisation.

At many points Bahodopi displays the classic symptoms of a district left behind by its own industry. Roads are unequal to the movement of people and goods. Drainage lags behind the sprawl of settlements. Clean water is a problem. Rubbish and sanitation remain inadequately managed. Housing follows the logic of the informal market. Schools and health facilities run well behind the needs of a population that keeps growing.

On paper, an industrial zone should become a new growth pole. In development theory, a growth pole is not merely a cluster of factories but an economic node that radiates progress to surrounding areas—generating employment, expanding markets, upgrading public services and nurturing a new middle class. For any of that to happen, however, industry cannot stand alone. It needs a city alongside it: infrastructure, land-use planning, social services and an active government.

The trouble is that the state tends to show up with great force when building industrial projects, then fade away when it comes to building the communities around them. Nickel downstream processing has received national policy backing, investment incentives, licensing privileges and strategic status. But the zones where workers live, where children attend school, where families seek healthcare and where local communities absorb the shock of rapid change are often treated as secondary concerns.

The result is an in-between space. Bahodopi is no longer a village but has not become a city. It is not an ordinary district, yet it is not treated as a strategic urban area. It bears the full weight of industrial urbanisation but lacks the fiscal, institutional and governance tools to manage it. The informal sector has consequently exploded—food stalls, rental accommodation, transport and small traders are all part of industry's multiplier effect, but without land-use controls, sanitation or access to capital, informality becomes a new source of vulnerability.

Properly managed, Bahodopi's multiplier effect could be far larger. Good infrastructure reduces logistics and living costs. An orderly environment raises worker productivity. Decent schools persuade working families to put down roots. The problem is that many IMIP workers do not yet see Bahodopi as their future home. They view it as a temporary posting: earn money, remit it to the family back in the village, leave when the contract ends. A large share of the wage bill therefore circulates outside the local economy. The cake is baked in Bahodopi but eaten elsewhere.

A Fiscal Paradox

The second paradox is more troubling. Morowali's spectacular GDP growth has not translated into stronger local fiscal capacity—in fact, the reverse has happened. If the ratio of district revenue to regional GDP stood at 14.93% in 2011, by 2025 it had fallen to just 1.35%. The bigger Morowali's economy grows, the smaller the slice that stays in the district treasury.

The reason is structural. Most of the fiscal yield from IMIP's activity—export levies, value-added tax, corporate income tax, personal income tax and a range of other charges—flows directly to the central government. Local authorities receive a share through intergovernmental transfers, but redistribution is neither automatic nor immediate, and it rarely reflects the true burden that industrial zones impose on their host districts.

Ironically, the fiscal stream Morowali can most reliably tap derives from mining and quarrying—through natural-resource revenue-sharing—rather than from manufacturing. The large value-added generated by smelting, processing and downstream exports accrues primarily as national revenue. In this sense, downstream processing creates a growth pole in the regions but channels most of its fiscal dividends to the centre.

Bahodopi is thus a district with enormous demands on public services but slender public resources to meet them. The local government must cope with a population surge, exploding infrastructure needs, housing pressures, and demands for clean water, schools, clinics and waste management—all with fiscal instruments that cannot keep pace with industrial growth.

In practice, local governments have effectively handed Bahodopi to IMIP. Through its corporate social responsibility (CSR) programme, the company has been asked to help repair roads, drains and social facilities. But CSR is not a tool for regional development. It is limited and piecemeal; it cannot substitute for the state. It has no mandate for spatial planning, no fiscal authority and no capacity for cross-sectoral co-ordination.

One episode captures the dysfunction vividly. IMIP once tried, through its CSR budget, to build drainage infrastructure on land under central-government jurisdiction. Rather than gratitude, it received a fine. The project was halted and the infrastructure has sat unfinished ever since. The story is small in scale but large in implication: when urgent local needs arise, authority is fragmented; when a company steps forward, regulation blocks it; when the government should act, its capacity is too slow.

Toward a Sustainable Downstream Strategy

Bahodopi has grown into a sprawling, uncontrolled zone. Urban sprawl has taken hold. Public spaces are absent. Transport is unintegrated. Basic infrastructure limps along. This is not merely a matter of aesthetics. It is a problem of productivity, public health, safety and the long-term viability of the downstream industry itself.

Preserving the gains from the nickel boom requires more than sustaining investment flows. Downstream industrialisation must graduate from being an industrial project to being a regional development project. Industry must keep growing, but the territory around it must also be liveable. District finances must be capable of funding the social and infrastructure demands that growth creates. Four priorities stand out.

First, a dedicated fiscal scheme for mineral downstream districts is needed. Areas bearing the urbanisation burden of industrial zones must receive transfers calibrated to that burden—not just standard formula grants. The criteria could include population growth, industrial workforce size, infrastructure pressure, housing demand, environmental stress and the zone's contribution to national exports.

Second, a buffer-zone infrastructure fund is essential—one that finances not only production roads or industrial facilities but also residential roads, clean water, drainage, sanitation, hospitals, schools, public transport and waste management. Without social infrastructure, industrial zones will keep generating brittle economic growth.

Third, the central government must clarify cross-sectoral authority. A single co-ordination mechanism that allows central, provincial, district and corporate actors to move within one shared plan is indispensable. In a place that changes as fast as Bahodopi, slow governance is nearly as dangerous as no governance.

Fourth, downstream processing must be connected to an industrial-city strategy. Indonesia does not need only smelters; it needs industrial cities—places that provide decent worker housing, vocational education, hospitals, transport, open spaces and a robust environmental system. These are not luxuries. They are prerequisites for an industry that intends to last.

The Roles of Region and Industry

Central Sulawesi's provincial government and the Morowali district administration must also rethink how they see Bahodopi. It is no longer an ordinary sub-district; it is a node in the provincial and national economy. Spatial planning, infrastructure investment, basic services and settlement control must be placed at the top of the agenda—not left to the market and to IMIP's CSR budget.

An operational master plan for the IMIP buffer zone is needed—one that delineates residential zones, road networks, public-service hubs, commercial areas, open space, flood-prone areas, drainage systems and the locations of schools and clinics. Without a clear road map, informal land markets and unplanned settlements will always outpace the state.

IMIP, for its part, must broaden its conception of CSR. Ad hoc social assistance and spot infrastructure repairs are not enough. CSR should evolve into integrated community investment aligned with local-government development plans—focused not on substituting for government but on strengthening the ecosystem in which the company operates. A formal three-way co-ordination forum among IMIP, local government and the central government would ensure that corporate initiative no longer collides with public authority.

A Model Still Unfinished

Nickel downstream processing is the right strategic bet. Indonesia has demonstrated that it can escape the curse of raw-material exports, creating value-added production, employment, worker incomes and a strategic position in global supply chains. But that success is incomplete. The large cake that downstream industry has baked must be preserved—it must not spoil quickly, must not be consumed entirely at the centre, and must not leave the districts that produced it in a state of neglect.

Morowali and Weda must not be remembered merely as the sites of smelters. They should become a new model for Indonesia's industrial-zone development—one that measures not only tonnage, export value and GDP growth, but also quality of life, fiscal capacity, urban order, environmental sustainability and the future of the workers who make it all possible.

The cake from nickel downstream processing has proved to be large. The next challenge is to make it fairer, more durable and more beneficial to the territory where it is baked. Bahodopi's lesson is also a warning: the downstream zones being built elsewhere in Indonesia—from North Maluku to other mineral-rich corners of the archipelago—stand at the same crossroads. Get the governance right now, or risk repeating the same story on a larger scale.