Development Priorities Based on Sectoral Analysis to Reduce Disparity in Indonesia

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ABSTRACT

In determining development priorities, especially those related to improve income disparities between provinces, several studies examine income disparities using data on provinces in Indonesia. However, these studies pay less attention to the sectoral role of income disparities between the provinces. In fact, the preliminary research was found, if the research only focuses on the provincial level, not for national level, without focusing on sectoral data, it will cause errors in decision making and priorities in development. Using 8 sector data namely Agriculture, Manufacturing, Utilities, Construction, Trade, Transportation, business and social sectors between 2005-2012. This study aims to observe whether the sectoral analysis at the provincial level has the same or different results as the sectoral analysis at national level. The result of the study: Data sectoral at a national level does not describe the conditions at the provincial level sectoral analysis, at the provincial level or even at a lower level is needed in the formulation of national development policies work effectively. The disparity between provinces in Indonesia tends to widen. To reduce disparities between provinces, a more pro-provincial policy is needed whose conditions are below the national average.

Keywords: Disparity, Development, Sectoral, Province, Indonesia

1. INTRODUCTION

Economic inequality or disparity is one of the problems continue to be faced by many countries, especially countries with large populations and large areas. Indonesia is one of the countries which have two criteria mentioned. Therefore, it can be assumed Indonesia faces internal problems of disparities.

Sendouw (2010) in his research shows. According to him, if we look at the trend of income disparity between provinces, it can be concluded there was a decline in 1993-1997, but then changed direction to the trend of increasing inequality from 1997 to 2004 (Figure 1).

Source: Sendouw (2010)

Figure 1. Income disparities between provinces

Table 1. Share of Value-added and Labor by Sector

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<tr>
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<tbody>
<tr>
<td>Agriculture</td>
<td>19.53</td>
<td>49.79</td>
<td>20.81</td>
<td>44.74</td>
<td>18.81</td>
<td>43.81</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>24.99</td>
<td>11.49</td>
<td>27.52</td>
<td>12.08</td>
<td>27.98</td>
<td>11.94</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.29</td>
<td>0.20</td>
<td>1.23</td>
<td>0.18</td>
<td>1.90</td>
<td>0.25</td>
</tr>
<tr>
<td>Construction</td>
<td>7.43</td>
<td>3.80</td>
<td>5.93</td>
<td>4.27</td>
<td>5.94</td>
<td>4.90</td>
</tr>
<tr>
<td>Transportation</td>
<td>7.63</td>
<td>3.91</td>
<td>6.68</td>
<td>4.72</td>
<td>7.36</td>
<td>5.91</td>
</tr>
<tr>
<td>Business</td>
<td>8.76</td>
<td>0.75</td>
<td>7.95</td>
<td>0.76</td>
<td>7.56</td>
<td>1.21</td>
</tr>
<tr>
<td>Social</td>
<td>11.11</td>
<td>13.20</td>
<td>8.94</td>
<td>14.04</td>
<td>9.93</td>
<td>11.34</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
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Based on the above trend, Sendouw (2010) examines the share of value-added and the share of sectoral workforce at the national level and the provincial level.

Table 1 shows at the national level, manufacturing is the sector that has the largest contribution because the manufacturing sector has the largest share of value-added. However, at the provincial level, it turns out that agriculture is the most dominant sector for both value-added and labour. This shows that public policymaking as seen at the national level will experience distortion because if viewed at the national level, the manufacturing sector is very dominant in terms of its value-added share. However, as seen at the provincial level, it turns out that the manufacturing sector is only dominant in 7-8 provinces. Meanwhile, in most other provinces, the agricultural sector is still very dominant in value-added and labour.

The question which arises over time, are the sectoral conditions at the national level still different from the provincial sector? This is important due to decentralization already underway, in terms of determining development priorities and determining the budget, especially for large projects, it is still determined by the central government. The problem is some of these policymakers' set priorities by considering statistics at the national level. It is feared this condition cause errors in determining the priority of development in an area.

This study intends to answer three concerns by analysing at the sectoral level per province for development priorities to reduce disparities between provinces can be right on target.

2. LITERATURE REVIEW

In terms of determining development priorities, several studies focus on regional disparities and various contributing factors in various countries, including Indonesia, and use data at the provincial level. For example, Ge. 2006 which describes the increasing disparity between regions in China, or Miller and Genc (2005) who apply absolute beta-convergence concludes that in the 1969-1997 period, convergence occurred in the United States at different rates.

Meanwhile, research on development priorities and disparities in Indonesia has been carried out by,

Akita (1988) estimated the coefficient of variation (CV’s) for the Gross Regional Domestic Product (GRDP) data at the provincial level excluding oil and gas, for data from 1975 to 1983. He found that the CV’s of the provinces in Indonesia was in the range of 0.443 to 0.481. CV’s tended to increase in the period 1975-1979 but decreased in the period 1979-1983. This indicates a decrease in the gap between provinces.

In line with the studies mentioned, Resosudarmo and Vidyattama (2006), using GRP per capita GRDP data from 1993 to 2002, conclude there is conditional convergence between provinces in Indonesia. However, this previous study taken less attention to the sectoral role in income disparities between provinces and the role of reducing the disparity (convergence). Whereas in the preliminary research, found that if seen at the provincial and national (aggregate) levels, without considering the sectoral side, we could draw wrong conclusions, which resulted in the determination of development priorities being mistargeted, because it turns out that the aggregate trend at the national level is not always the same. The same as the condition when viewed from a sectoral perspective.

3. RESEARCH METHODS

This study is a quantitative study that uses data at the provincial level in Indonesia as the unit of analysis. For this research, we use GRDP data from 9 sectors in each province as follows: Agriculture (including forestry and fisheries), Mining, Manufacturing, utilities (Electricity, water, and gas), Construction, Trade (wholesales, retail, restaurant, and hotels), Transportation (storage and communication), business (real estate and business services), and social sector (Education). Continuing the previous research conducted by Sendouw (2010), this empirical analysis is based on data from 2005-2012 taken from the Central Statistics Agency, BPS. The reason for using 2005-2012 data is before 1993-2004 has been published and the data above 2013 has different criteria for the distribution of value-added per sector. The difference in the data used by Sendouw (2010) here is the addition of mining data. The reason for using mining GRDP data is because after regional autonomy was implemented, the mining sector’s profit-sharing to producing regions became larger and more significant compared to the era before regional autonomy was implemented.

4. RESULTS AND DISCUSSION

4.1. National vs Provincial Data

In this study, the first thing to know is how the condition of the value-added per sector is seen nationally and per province.

Table 2. Value-added by Sector
4.2. Disparities between Provinces

There are many ways to observe disparities between regions. One of the ways can be used is as described below. After it has been proven that sectoral data at the national level do not reflect the conditions in most of the provinces in Indonesia, then we will look at the disparity between provinces in Indonesia as illustrated in Figure 2.

Table 2 shows the calculation results for the provincial level as well as the total value added which is a national picture in 2012. Nationally (total column) shows the value-added from manufacturing sector is still a national picture in 2012. Nationally (total column) as found in 1993, 1997 and 2004.

...)

According to Table 2, the value-added from manufacturing sector for the most dominant provinces are North Sumatra, Riau, Riau Islands, Bangka Belitung Islands, West Java, Banten, Central Java, East Java, East Kalimantan, and West Papua. This is not much different from the data in 1993, 1997, and 2004 which shows there are 7-8 Provinces whose manufacturing sectors are dominant. In 2012 increased to 10 provinces, but 2 additional provinces, such as the Riau Archipelago which is a division of Riau Province, and Banten which is an expansion area of West Java Province, which is indeed a very dominant manufacturing sector since 1993, it can be concluded that the provinces that dominate in the manufacturing sector have remained relatively the same since 1993.

Figure 2. Value Added Disparities between Provinces in 2012

Figure 2 is generated from the following calculations: Value-added from each province is added up to get the Total Value Added or it can also be referred to as the National Value Added. Furthermore, the National Value Added is divided by 33 which is the number of provinces included in this study, resulting in an average National Value Added. Then the value-added for each province is reduced by the average National Value Added and the result is divided by the average National Value Added. With this calculation, a zero value indicates the same condition as the national average value, while a negative value indicates a condition that is below the national average value, and on the contrary, a positive value indicates a condition above the national average.

From Figure 2 it can be seen that there are 9 Provinces out of 33 total 33 Provinces in this study which are in a condition above the national average, while the rest, 24 Provinces are below the national average. The Province of the Special Capital Region of Jakarta is the province with the largest Value Added, while North Maluku is the province with the smallest Value Added.

Although it cannot be directly compared with the results of Sendouw’s (2010) research due to the different types of data and the number of provinces, in general, it can be concluded the gap between provinces in Indonesia is widening. One example that shows this widening gap in Jakarta. If in 2004 (Sendouw, 2010) the value was no more than twice the national average, but in 2014 Jakarta the value was almost 5 times the national average. Another interesting thing from this result except for Yogyakarta, the provinces in Java Island are all above the national average.
the national average. This shows the dominance of Java over other provinces outside Java.

5. CONCLUSION

The conclusions that can be drawn from this research are:

Data on sectoral at the national level does not describe conditions at the provincial level, it means sectoral analysis at the provincial level or even at a lower level is needed in the formulation of national development policies to work effectively.

The disparity between provinces in Indonesia tends to widen. To reduce disparities between provinces, a more pro-provincial policy is needed whose conditions are below the national average.

REFERENCES


