

REGIONAL SPECIALTIES IN THE IMPLEMENTATION OF LOCAL DEVELOPMENT IN INDONESIA

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***Abstract:** The study aims to analyze the formation of regional specialties in the implementation of local development in Indonesia in the era of regional autonomy to their local seed sector that is capable of producing a commodity in each region. The research activities carried out in all districts / cities in South Sulawesi Province as one of the provinces in Indonesia are quite advanced economies today. The data used are secondary data were then analyzed using analysis tools Location Quotient (LQ), Growth Ratio Model (MRP), Analysis of Overlay, and Krugman Index. The results of this study indicate that there are differences in the leading sectors in each district / city in South Sulawesi province, so it is likely to form the concentration of economic activity in each district / city. But the level of activity concentration of the leading sectors in each district / city in the province is still very low which is indicated by an index value of regional specialties throughout the districts / cities are less than 1 in 2011 and 2015. As a result, there are no districts / cities that are able to create specialization regional that can be expected to accelerate the improvement of the performance of the regional development significantly during the observation period. Therefore, these local governments need to focus more on encouraging the creation of regional specialties in the region by making changes to its superior sector development direction, so as to realize the acceleration of economic development of each county / city in the future.*

***Keywords :** Regional Development, Regional Specialties, and Commodity sector.*

1. INTRODUCTION

The regional roles as sub-national in the determination of locations to implement economic development activities are getting more important these days; thereby the regions that become analysis unit in economics develop rapidly in every country nowadays, including Indonesia. One phenomenon that has come into realization in regional development process of Indonesia and several other countries is the tendency towards the creation of regional specialization. There are many researchers who pay great attention in the investigation of this issue, including Toni Mora and R. Moreno,

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2009; George W. Morse, 2011, Robert Dixon and J. Freebairn, 2009; and Xiaobing Shuai, 2010, Kuncoro, 2009, and even T. Mora and R. Moreno (2009) emphasized the attention to the spatial distribution of economic activities in the European Union that have experienced rapid development in recent years. Many researchers have been trying to explain the pattern as well.

In the era of regional autonomy in Indonesia, there are greater opportunities for every regency and city to promote their regional development in line with the authority granted by the central government, the direction of private investment activities to the regions, and the development of transportation, communication and electricity infrastructure. Therefore, every regency and city in Indonesia currently has great opportunities to create regional specialization for their region to speed up economic growth and expansion of employment of such regions. Moreover, economic activities have developed in those regions, oriented to the use of local resources which produce a number of superior commodities, for example cocoa, shrimp, and fish. Some of them are exported to other countries to generate foreign exchange, so as to speed up regional economic growth, expand employment opportunities and improve the economic linkages between sectors in the economy of these regions. In this regard, the regency / city government of Indonesia has made various efforts and directed their policies to encourage the development of economic activity in superior sectors which produce superior commodities in respective regions.

The opportunities to develop economic activities in sectors that produce superior commodities in regency / city in Indonesia will open wider with the enactment of ASEAN Economic Community (AEC), and that's why the market opportunities for those commodities will grow bigger. However, in general, superior commodities of regencies / cities in Indonesia currently are still dominated by agricultural sector which are included as primary product, hence the relatively low competitiveness. In addition, the types of superior commodity of some regency / city from one province are likely the same or similar, and cannot complement each other (complementary).

It is very interesting to study whether or not, the efforts made by regional government and the community to increase economic activities in superior sectors which produce superior commodities, able to promote the creation of regional specialization in regencies / cities in South Sulawesi Province, as one of provinces in Indonesia with growing economy these days. The contribution of this research is to provide empirical evidence on the development strategy of regional specialization in developing countries with tropical resources.

Based on the background above, The study aims to analyze the formation of regional specialties in the implementation of local development in Indonesia in the era of regional autonomy to their local seed sector that is capable of producing a commodity in each region. Originality of this research can be seen from the following explanation : based on the results of data processing there are interesting things about regional specialties can be implemented on local development in indonesia. This is

unique in itself, where with this result it can be described that there are no study areas capable of forming a regional specialization during the period 2011-2015 as the observation period, despite having superior sectors that can be expected to form regional specialization.

2. LITERATURE REVIEW

2.1. Regional Development and Regional Specialization

Regional development activities are an effort that should be carried out by local governments with their people to promote the improvement of social welfare in such regions from time to time. The success of regional economic development implemented is largely determined by the availability endowment factors: natural resources, human resources, infrastructure (transportation, communication, electricity, water supply, and market), technology, and economic institutions, particularly financial institutions. The presence of support for endowment factors make the regions in Indonesia obtain Comparative Advantage, allowing these regions to produce a variety of goods and services in large quantities in order to meet the needs of local and exported markets.

In line with their comparative advantage, each region will seek to speed up their regional economic development in various sectors of the economy. In accordance with the availability of endowment factors, several superior economic sectors will grow in each region that will able to produce a number of regional superior commodities. These superior commodities eventually become export commodities expected to be the prime mover of regional economic development and create increased social welfare.

In that regard, today it appears that regions in Indonesia seek to make specialization in producing their superior regional commodities by means of boosting development in economic sector activities. By such effort, it is expected that each of these regions will be able to create regional specialization that will provide great benefits to their economy, particularly in creating efficiency and effectiveness in the use of resources and high productivity improvement.

Regional specialisation describes the distribution of the sectoral shares in its overall economy compared to the whole country, whereas the geographical concentration of a specific industry reflects the distribution of its regional shares. One of the main streams of the literature dedicated to regional specialisation refers to the mechanisms of this process, as described by Ricardo's comparative advantage theory (1817) and Heckscher-Ohlin's factor endowment theory (Heckscher, 1919, Ohlin, 1933). Then, neoclassical models and new models of trade also demonstrate how regional specialisation allows economies to benefit from their resource endowments (Krugman, 1991, Fujita, Krugman and Venables, 1999).

Each of these superior economic sectors is expected to create an economic concentration in the regency / city in this area, and is expected further to form regional specialization that can promote the economic development here. Therefore, it can be

said that one of the effective measures implemented by local governments in Indonesia is to realize the acceleration of regional economic performance is encouraging the creation of regional specialization of their respective regions.

2.2. Regional Specialization and Economic Scale

With the increasing population in each region from year to year, the needs for goods and services are increasing as well. Such increase is related to several aspects, such as the number or type of products demanded, the number of products demanded, as well as the quality. Therefore, in order to meet the consumption needs of the community in each region, the number of goods and services produced as well as the number of its types and quality should always increase over time. To bring this into reality, production process in every economic sector should always be promoted, in terms of the goods and services produced. In this regard, the activities of goods and services production undertaken in each region are constantly evolving over time and tend to converge in a certain area point to form clusters or agglomerations.

The tendency of production activity to converge in a particular region encourages the concentration of certain economic activities to form clusters or agglomerations. It is relevant to Hirschman's statement (in AR. Razak, 2009); there are several development points in a country where industries are clustered, as it is where various benefits in the form of the savings and easiness can be found. At each point of development, regional specialization will take place, where a particular concentration of economic activity with capacity expansion can be expected from time to time.

The development of economic activity in each region, driven by the concentration of specific economic activities, will lead to different levels of economic development scale between regions, and in turn give rise to the growth of central regions and hinterland. The growing economic scale in central region bigger than hinterland will result in differences that should be utilized for both regions to achieve their economic improvement. To achieve this goal, the central regions with their hinterland should develop a well-integrated system, so as to provide easiness for economic actors in each region with different size it to perform their activities, in which a central region acts as a service center for its hinterland.

With the concentration of economic activity occurred in the regional economy, the emergence of regional specialization can be expected, which can provide a greater and a wider multiplier effect for regional economy. In relation to the concentration of a particular economic activity in a region which is formed as a cluster, then the region or regions in question would create a certain economic activity as a regional specialty concerned with the larger economies of scale, so it will be able to create efficiency and effectiveness in the economy of the region concerned.

With the concentration of economic activity occurred in the regional economy, the emergence of regional specialization can be expected, which can provide a greater and a wider multiplier effect for regional economy. In the opinion of Midelfart-Knarvik

et al., (2000), specialisation results in the main from comparative advantage and agglomeration processes. It demonstrates that the comparative advantage and agglomeration process will promote the creation of regional specialization highly beneficial to the economy of regions capable of exploiting existing opportunities, both in local and regional scale. Similarly, regional specialization has boosted the formation of comparative advantage and agglomeration highly beneficial for the regional economy, obtained from benefits that are created in the process, such as the efficiency and effectiveness in the utilization of resources, and it will eventually open up wider market opportunities.

Regarding this manner, Toni Mora and Rosina Moreno (2009) state that in the first of these explanations, a region benefits from higher human capital endowments and technological capacities, as well as from geographical factors such as proximity to markets or a location in the core. In the second of these explanations, new economic geography signals the presence of knowledge spillovers, common labour skills or forward/backward linkages as determinants of location patterns and, hence, specialisation.

Furthermore, Farhauer and Kroll (2012) appoint that there are numerous studies inquiring into the interplay, or let us say the correlation, between sector structure and regional economic growth. Most studies find, employment growth rates are higher in regions with a diversified sector structure (e.g. Glaeser *et al.* 1992; Combs *et al.* 2004; Frenken *et al.* 2007), whereas productivity growth rates are higher in rather specialised cities (e.g. Henderson *et al.* 1995; Capello 2002; Cingano and Schivardi 2004; Mukkala 2004). Empirically, a co-existence of diversified and specialised cities is to be observed (e.g. Duranton and Puga 2000). Therefore, it is to be assumed that both structures pose a favourable context for a specific environment, i.e. firms belonging to a certain sector, labour force or consumers.

Due to economic scale created in the production process, regional superior sectors are able to create economic benefits for the regional economy, especially in the form of improving the competitiveness of the region. This economic scale is expected to deliver regional specialization in the regions mentioned.

3. METHODOLOGY

The research is focused on the study of regional specialization in regions / cities of South Sulawesi Province as one of the provinces in Indonesia having the opportunities to form a regional specialization in the development of regional economy, due to the availability of endowment factors, superior sectors, and greater authority granted by the central government to manage local economic potentials of these regions within regional autonomy era today. The selection of regencies / cities in South Sulawesi Province as a sample region was performed using purposive sampling method on the ground that consideration that the characteristics of regencies / cities in this region was relatively homogeneous with other regencies / cities in Indonesia; thereby a study

of regencies / cities in this region could represent other regencies / cities in Indonesia today.

This research activity was started by identifying the superior sectors within each regency / city in South Sulawesi Province, using analytical tools Location Quotient (LQ), Growth Ratio Model (GRM), and Overlay analysis. It was important to do in order to determine which economic sectors becoming superior sectors of each regency / city in South Sulawesi as the sample area that could be expected to encourage the creation of regional specialization in these regencies / cities.

1. Location Quotient (LQ) Analysis in the calculation using LQ analytical tool

Basically the economic sectors in the economy can be divided into two major groups, namely the basic sector / non-featured and base / featured. Sector base / featured are the sectors that are able to meet the needs of consumers in the region itself, and there is still an excess amount of production that can be exported to other regions or abroad. Then the non base is the economic sector which is only able to meet the needs of consumers in their homeland, even they must also imported from outside the region or abroad to meet the need of local consumers.

One approach that is used to determine the leading sectors of a region is the Location Quotient (). an early indicator to determine the position of the surplus / deficit of a region in terms of consumption / specific production. LQ analysis is a statistical method that uses the characteristics of value-added output or employment to analyze and determine the diversity of the economic base of society in the region. LQ analysis framework provides an understanding of the stability and the flexibility to change the condition of the community's economy through investigation of the degree of sectors that exist in the community (Heilbrun, 1987).

LQ analysis on a certain sector is done by comparing the share of the sector through the use of the value of output or number of workers to total the share at the level of regional / local with the same share of the total sector at regional or national level as a reference region. The requirements are if the value of the share of the sector at the regional / local is bigger than its share in the regional or national level as a region preference, then the excess portions can explain the value of exports that occurs.

Therefore, LQ methods can be used to analyze whether a surplus of certain sectors in the economy of the district / city in South Sulawesi province, so it can immediately known whether the relevant sector into a sector basis / featured or non base / featured in the economy of the area concerned. The calculation can be done using a model formula LQ (Kadariah: 72) as follows:

$$LQ_i = \frac{v_i / v_t}{V_i / V_t}$$

There are three conditions that can be characterized in the calculation method in a region, namely:

If values > 1, indicating the sector in addition to meet its own needs, it also provides an opportunity to be exported to other regions, so it is a basic sector / featured in the region.

If the value = 1, indicating the sector can only meet the needs of the area itself, so the sector is in the area have the same level of specialization in comparison to the same sector in the reference area (provincial or national)

If the value < 1, indicating that the sector is not sufficient to meet the needs of its own territory, so that the region had to import from other regions. Sector concerned is a non sector basis)

2. Growth Ratio Model (MRP) Analysis

This analysis tool has been widely used to determine the leading sectors in the region as an area of study in relation to the region's economy reference (provincial or national) from the aspects of the growth rate of each economic sector in the study area. MRP compares the growth of a sector of the economy of the study area with the reference area. Therefore, the use of analytical tools, there are two (2) ratio of growth is seen and analyzed, namely: (1) growth in the study area ratio (RPs); and (2) growth in the reference ratio (RPR).

To calculate the ratio of growth, then used the formula (Maulana, 1999) as follows:

- a. Ratio growth reference region (RPR)

$$RP_r = \frac{\Delta E_{iR} / E_{iR(t)}}{\Delta E_R / E_{R(t)}} \quad (1)$$

- b. Ratio growth in the study area (RPs)

$$RP_s = \frac{\Delta E_{ij} / E_{ij(t)}}{\Delta E_{iR} / E_{iR(t)}} \quad (2)$$

3. Overlay Analysis

Overlay analysis is intended to identify and determine the leading economic sector in the economy of the study area during the observation period based on the criteria of growth (MRP) and the contribution of each economic sector in the PDRB (LQ) simultaneously. In this overlay analysis, there are four (4) the possibility of classifying the results obtained for each sector of the economy in the area of study, namely:

- 1) Growth (+) and contribution (+), which indicates that the sector is very superior in the economy of the study area, both from the aspect of its growth

and its contribution to the PDRB aspect of the study area during the observation period;

- 2) Growth (+) and contribution (-), indicating that the sector has a dominant growth but its contribution to the PDRB is a small study area, so the sector is categorized as a sector of potential for accelerated contribution in the PDRB.
- 3) Growth (-) and contribution (+) indicating that the sector has a small but growing contribution to the PDRB study area is large, so it is a sector that is experiencing a decline (contraction) in the economy of the study area.
- 4) Growth (-) and contribution (-), indicating that the sector has a growth and a small contribution in the economy of the study area, so it is an economic sector that is not winning and not of potential.

Furthermore, using the results of calculations and analysis of MRP and LQ together (overlay), then it can be easily identified and specified economic sectors featured each district / city in South Sulawesi Province as the study area during the period 2011-2015 as the period of observation

After leading sectors within each district / city in South Sulawesi province can be identified, then the next will be the second step, which is to measure and analyze the level of regional specialties respective districts / cities in this area arising from the concentration of economic activity leading sectors they. To measure the level of regional specialties respective districts / cities in this area, then use analysis tools Regional Specialization Index (Index Krugman). The formula of analysis tools (in Kuncoro, 2004) are as follows:

$$SI_{jk} = \sum_{i=1}^n \left| \frac{E_{ij}}{E_j} - \frac{E_{ik}}{E_k} \right| \quad (3)$$

Values of this index ranges between 0 - 2. The criteria for the measurement according to Kim (in Kuncoro, 2004) are:

1. If the value of the index of regional specialties close to 0, then the two districts/cities that were analyzed did not have specialties. Means there is no dependency between them, so that the economic linkages between the two districts / cities that are small.
2. Conversely, if the value of the index of regional specialization between the two districts / cities that were analyzed it was close to 2, then both districts / cities that were analyzed it has regional specialties, so that there is interdependence between the two. As a result, there will be considerable economic linkages between the two districts / cities under study.
2. Limit the middle between the numbers 0 and 2 is 1, so if the value of specialization index greater than 1, it is presumed that the districts / cities that were analyzed had a specialty. And vice versa.

To see the high and low levels of regional specialties of a district / city to the districts / cities that were analyzed, then used the average value index of specialization all districts / cities which analyzed it as a comparison.

4. RESULT AND DISCUSSION

This research activity was started by identifying the superior sectors within each regency / city in South Sulawesi Province, using analytical tools Location Quotient (LQ), Growth Ratio Model (GRM), and Overlay analysis.

4.1. Results LQ Analysis

In the calculation using LQ analytical tool, the economy in regencies / cities of South Sulawesi Province served as the study area, and the economy of South Sulawesi Province served as a reference region. Subsequently, using LQ formula, GRDP data of the regencies / cities in South Sulawesi Province, and GRDP of South Sulawesi Province's, the calculation could produce average value of LQ in each economic sector of the district/ city's economy in South Sulawesi Province, in the period 2011-2015 which served as the observation period.

The data show that during the period of observation, there are 7 (seven) superior sectors in Selayar Regency; 5 (five) superior sectors in Bulukumba Regency; 9 (nine) superior sectors in Bantaeng Regency; 4 (four) superior sectors in Jeneponto Regency; 4 (four) superior sectors in Takalar Regency; 8 (eight) superior sectors in Gowa Regency; 5 (five) superior sectors in Sinjai Regency; 3 (three) superior sectors in Maros Regency; 3 (three) superior sectors in Pangkep Regency; 5 (five) superior sectors in Barru Regency; 3 (three) superior sectors in Bone Regency; 7 (seven) superior sectors in Soppeng Regency; 4 (four) superior sectors in Wajo Regency; 5 (five) superior sectors in Sidrap Regency; 2 (two) superior sectors in Pinrang Regency; 5 (five) superior sectors in Enrekang Regency; 4 (four) superior sectors in Luwu Regency; 9 (nine) superior sectors in Tana Toraja Regency; 4 (four) superior sectors in North Luwu Regency; 1 (one) superior sectors in East Luwu Regency; 10 (ten) superior sectors in North Toraja Regency; 13 (thirteen) superior sectors in Pare Pare City; 12 (twelve) superior sectors in Makassar City; 10 (ten) superior sectors in Palopo City.

4.2. Results MRP Analysis

As outlined previously, the MRP analysis tool is used to identify the superior sectors in the regencies / cities in South Sulawesi Province based on growth criteria during the observation period. The calculation result using this analysis tool. It appears that there are eight (8) economic sectors which are not included as superior sectors in entire regencies / cities in South Sulawesi Province during the observation period. The eight sectors are: (1) agriculture, forestry and fisheries (S1); (2) mining and quarrying (S2); (3) electricity and gas supply (S4); (4) water supply, waste management, waste and recycling (S5); (5) transport and warehousing (S8); (6) company services (S13); (7)

administration, government, defense and social security (S14); and (8) education. Such condition happens because the RPr value of these 8 sectors is smaller than one, which means the growth rate is slower than PDRB growth rate of South Sulawesi Province as the reference region. Furthermore, the manufacturing sector (S3) is the superior sector in the Regency Bantaeng, Maros, Pangkep, Soppeng, Sidrap and East Luwu. The construction sector (S6) becomes the superior sector in the Regency Selayar, Gowa, Maros, Wajo, North Luwu, North Toraja and Makassar. Similarly, the big trade, retail, car and motorcycles repair sector (S7) becomes the superior sector in the Regency Selayar, Bulukumba, Bantaeng, Jeneponto, Takalar, Gowa, Sinjai, Pangkep, Barru, Bone, Pinrang, Luwu, Tana Toraja, North Luwu, North Toraja and Palopo. Accommodation, food and beverage sector (S9) becomes the superior sectors in Bulukumba, Bantaeng, Jeneponto, Gowa, Pangkep, Wajo, Pinrang, North Luwu, East Luwu, North Toraja, and Pare Pare. The information and communication (S10) sector is the superior sector in Regency Selayar, Bulukumba, Bantaeng, Jeneponto, Takalar, Gowa, Sinjai, Pangkep, Barru, Bone, Soppeng, Wajo, Sidrap, Pinrang, Enrekang, Luwu, Tana Toraja and East Luwu, North Toraja and Makassar. Financial services and insurance sector becomes superior sector in Regency Selayar, Bulukumba, Bantaeng, Jeneponto, Gowa, Sinjai, Barru, Bone, Soppeng, Wajo, Sidrap, Pinrang, Enrekang, Luwu, Tana Toraja and East Luwu, North Toraja, and Pare Pare. Real estate sector (S12) becomes superior sector in Bulukumba, Bantaeng, Takalar, Gowa, Pangkep, Soppeng, Wajo, Enrekang, North Luwu, East Luwu, North Toraja, Pare Pare and Makassar. The health service and social activities sector (S16) becomes the superior sector in Bantaeng, Sinjai, Pangkep, Maros, Bone, Wajo, Luwu and North Luwu. Lastly, other service sectors (S17) are superior sectors in Regency Bulukumba, Bantaeng, Pangkep, and Barru.

4.3. Result Overlay Analysis

In order to sharpen the analysis of the superior sectors in regencies / cities in South Sulawesi Province during the observation period, overlay analysis was necessary to identify the superior sectors in these regencies / cities as the study areas based on growth criteria (MRP) and contribution (LQ) simultaneously. After overlay analysis was performed, the number of superior sectors in regencies / cities in South Sulawesi Province was reduced: there are only four (4) superior sectors in Selayar Regency; 4 (four) superior sectors in Bulukumba Regency; 6 (six) superior sectors in Bantaeng Regency; 1 (one) superior sector in Jeneponto Regency; 4 (four) superior sectors in Takalar Regency; 3 (three) superior sectors in Gowa Regency; 3 (three) superior sectors in Sinjai Regency; 2 (two) superior sectors in Maros Regency; 2 (two) superior sectors in Pangkep Regency; 3 (three) superior sectors in Barru Regency; 1 (one) superior sector in Bone Regency; 1 (one) superior sector in Soppeng Regency; 1 (one) superior sector in Wajo Regency; 3 (three) superior sectors in Sidrap Regency; 1 (a) superior sector in Pinrang Regency; 1 (one) of superior sector in Enrekang Regency; 2 (two) superior sectors in Luwu Regency; 2 (two) superior sectors in Tana Toraja Regency; 3 (three) superior sectors in North Luwu Regency; 7 (seven) superior sectors in North

Toraja Regency; 5 (five) superior sectors in Pare Pare City; 6 (six) superior sectors in Makassar; and 4 (four) superior sectors in Palopo City. Each of these superior economic sectors is expected to create economic concentration in the regency / city in this area, and is expected further to form regional specialization that can promote the economic development here. What should be done next is to analyze or assess the ability of superior sectors in each regency / city within the study area to create regional specialization during the observation period using analytical tool Regional Specialization Index (Krugman Index).

4.4. Results of the Analysis of Regional Specialties (Index Krugman)

Based on calculation result, the value of regional specialization index of regencies / cities in South Sulawesi Province can be determined. It shows that the index value of regional specialization throughout the regencies / cities in South Sulawesi Province as study area is smaller than 1 or close to 0, demonstrating that these regencies / cities analyzed have no specialization, despite holding several superior sectors that can be expected to form regional specialization through the concentration of economic activity created. The condition may be caused by several factors: (1) the superior sectors in these regencies / cities are generally similar, i.e. based on agriculture; and (2) the dominance of the agricultural sector as the superior sector in 17 regencies in this study area is not supported by the development of processing industries (agro-industry); thereby the level of association with other economic sectors, both in the local economy and other regional economies, remains relatively low. Such condition shows that the superior economic sectors in the regencies / cities in South Sulawesi Province as study area have yet to promote the creation of regional specialization during the observation period, and change in the direction of government policy is needed to boost the development of the superior sectors there.

5. CONCLUSION AND RECOMMENDATION

The results of this research show that there are no study areas capable of forming a regional specialization during the period 2011-2015 as the observation period, despite having superior sectors that can be expected to form regional specialization. Thereby, the government is recommended to immediately modify their strategy in promoting the development of regional economy by ramping up the growth of superior sectors in each region, and stimulating the increase of business scale in these superior sectors, in order to create a greater multiplier effect in the local, regional and national economy in Indonesia.

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