

CHAPTER I. INTRODUCTION

A. Research Background

Development is a multi-dimensional process that involves major changes in social structures, familiar mental attitudes, and national institutions and the acceleration of economic growth, absolute poverty reduction or restriction (Todaro, 1997). Economic development is considered important for a country to reduce poverty by providing jobs, obtaining higher incomes, improving goods and services and the latest production technologies. The concept of development applied by a country must be adjusted to the situation and conditions that occur in that country. National development is carried out to support and encourage the development of regional development, and on the other hand, regional development is increased to strengthen national development and national economic structure (Adisasmita, 2013).

Adisasmita (2013) explained that a region is a surface with certain boundaries where there is an intensive interaction between human resources, natural resources, capital resources, and technological resources, institutional resources and other development resources in various productive activities in the economic, social and political fields that produce regional growth. In essence, each region has different physical conditions and potentials. Therefore, regional development in the long term emphasizes the recognition of the potential of natural resources and the potential of local development of the region that is able to support economic growth and social welfare of the community, including poverty alleviation and efforts to overcome existing development obstacles in the region in order to achieve development goals (Hasan, 2022). The main objectives of regional development are to increase equity in the level of economic growth between regions, increase equity in income levels and community welfare between regions and strengthen the national and regional economic structure.

The implementation of Law No. 23 of 2014 concerning Regional Government, meaning that development has been handed over to the regions in the widest possible regional autonomy. Regional autonomy gives authority to each region in regulating and implementing development programs in its region so that

autonomous regions can more quickly respond to the demands of local communities according to their abilities. The existence of regional autonomy requires each region to optimize all its natural resources to be more effective and successful in increasing regional income. Regional development can be pursued in accordance with the characteristics of available natural resources. The effectiveness of the use of natural resources is directed at increasing the added value of natural resource products for the welfare of local communities so that they can enjoy the results of the use of natural resources in their regions. Natural resources must be seen as capital to increase the economic development of a region. The sectors that are important to do must be prioritized over other sectors. The priority sectors owned by each region are sectors that are able to be a driving force for other sectors and are used as the basis for economic development expectations (Anshari, *et al.*, 2022).

One of the measures of achieving national development success is economic growth and equitable development as measured using Gross Domestic Product (GDP) at the national level and Gross Domestic Regional Product (GDRP) at the regional level (provincial and regency/city). GDP is the amount of GDRP generated by all sectors of the economy of a region (Adiyatin, *et al.*, 2019). GDRP growth rate data is an important foundation for politicians to plan regional development. A large GDRP value indicates the ability of large economic resources, and vice versa. In the preparation of the GDRP by sector, the classification used includes seventeen categories, namely: Agriculture, Forestry and Fisheries; Mining and Quarrying; Processing Industry; Electricity and Gas Procurement; Water Procurement, Waste Management, Waste and Recycling; Building; Wholesale and Retail Trade, Car and Motorcycle Repair; provision of accommodation and food; Information and Communication; Financial Services and Insurance; Real Estate; Corporate Services; Government Administration, Defense and Compulsory Social Security; Educational Services; Health Services and Social Activities; Other Services.

Agriculture is a sector that contributes greatly to national economic growth and development. In 2023, GDP from the agricultural sector, livestock, forestry and fisheries reached 13.57% of the total GDP (Badan Pusat Statistik, 2023). The agricultural sector is a strategic sector that plays an important role as a source of production of basic necessities, clothing and boards, provides employment for most

of the population, contributes to high national income, and provides foreign exchange for the country through the export of agricultural commodities (Asir, 2022). Priority commodities in the agricultural sector are exported abroad to increase state revenue and encourage economic growth. BPS data (2023) shows that agricultural sector commodities exported include horticultural worth IDR 248.5 billion, perennials worth IDR 1.78 trillion, and food worth IDR 240 billion. The role of the agricultural sector in economic development is very important because some members of society in developing countries depend on this sector for their livelihoods. Agriculture is considered a sector that has a special ability to combine growth and equity or quality growth (Daryanto & Hafizrianda, 2010). The agricultural sector is the economic base of rural communities, controlling a large portion of the population, absorbing more than half of the total labor force and even serving as a safety net in Indonesia's economic crisis (Arifin, 2004).

One of the efforts that can be made to increase the contribution of the agricultural sector to GDRP as well as a sector driving regional economic growth is to develop priority commodities. The priority commodity of a region is a commodity that has a comparative advantage, where a region is able to produce a commodity at a relatively lower cost than other regions because the region has potential natural resources. Mawardi (2007) stated that if the goal of regional development is to pursue economic growth, then regional development is aimed at commodities that have high added value. However, if the goal of regional development is to pursue equity, then regional development is aimed at commodities that have a large absorption capacity for labor.

The determination of priority commodities will minimize the cost or investment needs of both the government, the private sector, and the community because of more focused development goals. This more focused development is expected to lead to industry specialization in each region which will further increase the scale and productivity of the industry concerned, so that the competitiveness of the industry concerned can increase in the global market (Mawardi, 2007). Therefore, the development of a priority commodity should be carried out in areas that do support the development of the commodity.

B. Problem Statement

West Sumatera is a province that plays a vital role in Indonesia's agricultural sector. Its fertile soil and tropical climate enable to production of various priority commodities, including paddy, corn, coffee and other crops. Agam Regency stand as one of West Sumatera's agricultural production centers.

Agam Regency stands as one of West Sumatera's most divers regions, boasting significant potential in natural resources, economic activities, and socio-cultural assets. Administratively, the regency comprises 16 districts with 82 Nagari (traditional village), spanning from western coastal areas to eastern highlands with elevations ranging from 0 to 2,891 meters above sea level. In 2023, Agam Regency's population reached 524,830, with 6.3% living below the poverty line (representing a 0.3% increase from 2022). The increase in the number of poor people in Agam is the highest compared to other regencies/cities in West Sumatera (Appendix 3). The economic structure of Agam Regency remains predominantly agricultural sector, with the sector contributing 28.2% to the regency's GDRP. According to BPS Data (2023), agricultural sector growth reached 3.10% declining from 3.35% in 2021. These indicators suggest that Agam's agricultural sector possesses untapped potential to generate greater GDRP. While 16.47% of the population works as self-employed individuals, agricultural sector employment has shown consistent growth-rising from 10.26% in 2021 to 10.87% in 2023. This trend confirms agriculture's continued dominance as the primary employment absorber in the regency.

Agam Regency's fertile agroecosystem support intensive cultivation of horticultural, food and perennial crops, fulfilling regional demand while producing substantial marketable surpluses. As mandated by Minister of Home Affairs Regulation No. 9/2014 concerning Regional Priority Product Development Guidelines, the local government has identified priority commodities across three agricultural subsectors based on production metrics. The horticultural subsector prioritizes bird's eye chile (*Capsicum frutescens*; 33,452 tons), shallot (*Allium cepa* var. *aggregatum*; 8,007 tons), potato (*Solanum tuberosum*; 9,522 tons), mangosteen (*Garcinia mangostana*; 41,825 tons), and pomelo (*Citrus maxima*). The food crop subsector focuses on corn (*Zea mays*), demonstrating significant production growth

from 118,500 to 125,600 tons (5.99% increase) in 2021, establishing Agam as West Sumatra's primary corn production zone, alongside paddy (*Oryza sativa*). Perennial crops feature oil palm (*Elaeis guineensis*), coconut (*Cocos nucifera*), coffee (*Coffea spp.*), and rubber (*Hevea brasiliensis*) as strategic commodities.

Despite the Agam Regency Government having established priority commodities, the average production of these commodities declined in 2023 (Appendix 6). This may have occurred because the selection criteria for priority commodities were based on Minister of Home Affairs Regulation No. 9 of 2014. Therefore, the study titled “Analysis of Priority Commodities in Agam Regency to Develop the Regional Economy” is expected to be able to determine priority commodities that are truly potential by comparing production levels in Agam Regency with those across the larger West Sumatra Province. Furthermore, this study will analyze the competitiveness of these priority commodities, ensuring the final selection is based not only on production volume but also on comparative and competitive advantage. By identifying priority commodities, the government can align development programs including infrastructure improvement, capacity-building initiatives, and market access expansion to optimize resource allocation efficiency. This research is expected to be able to assist the Agam Regency government in formulating appropriate policies related to regional development based on the agricultural sector, considering that employment in the agricultural sector tends to increase from 2021. The formulation of the problem in this study is:

1. What are the priority commodities in Agam Regency, West Sumatera Province?
2. How is the competitiveness of the priority commodities in Agam Regency against the priority commodities in West Sumatera Province?

C. Research Objective

Based on the formulation of the problem above, this study aims to:

1. Identifying what commodities are the priority commodity in Agam Regency, West Sumatera Province

2. Identifying the competitiveness of the priority commodities in Agam Regency against the priority commodities in West Sumatera Province.

D. Research Benefit

The results of this study are expected to provide benefits for:

1. For researchers and students, this research can be a means to apply the theories and knowledge that have been received and also used as a reference in conducting further research
2. For the government and related agencies, this research can be a recommendation in formulating policies and planning in development.

For the public, this research provides information related to commodities that have comparative and competitive advantages, both commodities in the subsectors of food crops, horticultural crops and perennial crop

