CHAPTER I

INTRODUCTION

1.1. Background

Papua is one of the provinces located at the eastern tip of Indonesia, with an area of approximately 82,682 Km^2, has 28 regencies but later Papua is expanded to be four provinces, and now Papua Province has one city and eight regencies. Based on data released by the Central Bureau of Statistics in 2020, the total population in Papua Province is 718,782 population and the total population of productive age is 629,453 population, it indicates that 89% of Papua province population are in productive age therefore the Papua Provincial government is aggressively improving human quality, the economy, tourism and others. In realizing this goal, the central government provides special rights for the island of Papua in terms of allocation funds. The allocation funds will be channeled and used for facilities and development progress in Papua Province.

Central government support is also seen through balancing funds and other legitimate regional income funds (including specific autonomy funds), total of specific autonomy funds for the 2002-2020 period is Rp. 92.6 trillion, with a percentage of 76% in the form of Papua's specific autonomy funds and 24% in the form of additional infrastructure funds in the context of Papua's specific autonomy, even these funds exceed Papua Province's PAD, with PAD funds 8.69% with the mean growth of 28.35% per year, balancing funds 29.05% with an average growth of 11.71% per year and authorized regional funds (including specific autonomy) 62.26% with a growth of 10.80% per year. Despite the existence of balancing funds and legitimate regional funds, Papua Province has not experienced significant changes.

The government's efforts to increase the rate of economic growth in Papua province are implemented in Law Number 21 of 2001 concerning Specific Autonomy for the Papua Region, while the purpose of the formation of this Law is to reduce the

gap between Papua Province and other provinces, improve living standards in Papua Province and provide opportunities for indigenous Papuans. Article 34 paragraph (3) letter c point 1 state that Papua is a province that is given priority in the provision of the General Allocation Fund, while in the same article the second point the amount of specific autonomy fund revenue for Papua province is equivalent to 2% of the National General Allocation Fund ceiling which is mainly intended to finance education and health. In addition, as reported by the website of the Regional Wealth and Asset Management Agency (BPKAD) of Papua Province, the Specific Autonomy Fund received by Papua Province from 2002 to 2016 amounted to IDR 47.9 trillion plus IDR 11.2 trillion for additional infrastructure funds. In 2019, the Specific Autonomy Fund received by Papua Province is IDR 5.9 trillion or equivalent to the APBD revenue of Maluku Province (IDR 3.2 trillion) and North Maluku Province (IDR 2.7 trillion).

Economic growth is generally defined as the process of increasing output over time and is used as the most important indicator to measure the success of development in a country (Todaro & Stephen, 2020). Economic progress in a country is determined by the amount of growth indicated by changes in national output (Ma et al., 2008). Economic growth in a country can be said to have changed, if the level of economic activity is higher than the previous time or year. This can be measured by Gross Domestic Product (GDP) on a national scale, Gross Regional Domestic Product (GRDP) on a regional scale and Gross National Product (GNP) on an international scale.

The most important objective of economic growth is poverty reduction, which can be achieved through economic growth and/or through income redistribution (Kakwani, 2003). The definition of economic growth is very comprehensive, not only discussing GDP, GRDP and GNP but also discussing multiple dimensions. For example, the discussion of economic growth issues will also lead to a discussion of the factors that influence economic growth such as the total and situation of the population, labor, migration and urbanization, human resources (HR), technology, human development, entrepreneurship, organization and innovation (Sagir, 2009). Meanwhile,

according to other researchers, Kuncoro said that inequality in resource ownership has an impact on inequality in income distribution and the quality of human resources. The measure of inequality of human resources is using the Human Development Index (HDI) which then shows the peak affecting poverty. According to Mankiw, an increase in GRDP is used to improve people's welfare and reduce poverty (Sianturi et al., 2021). Meanwhile, according to (Page & Pande, 2018), reducing poverty must be based on two, namely economic growth and sources of redistribution both from within the country and abroad.

Economic growth can be said to have an impact on poverty reduction based on research conducted by (Siregar, 2006) which states that economic growth is a necessary condition for poverty reduction, while economic growth that spreads to all groups is a sufficient condition. An analysis by (Kakwani and Son, 2006) of several countries in Asia shows that economic growth is important for poverty reduction. Similar research was also conducted by (Lestari and Imaningsih, 2022) with the outcome of economic growth having a significant effect on poverty negatively. This means that there is a converse relationship between poverty and economic growth, an increase in economic growth can lead to a reduction in poverty (Wahab, 2023). In addition, research conducted by (Indah & Rudi, 2020) concluded that there is a significant effect of economic growth toward the poverty rate, which is due to the large number of jobs created to reduce unemployment. (Laksani, 2010) who analyzed Pro Poor Growth with panel data of 26 provinces in Indonesia for the period 1980-2008 showed that economic growth had a significant effect on poverty reduction throughout the period (Soleh, 2015).

In addition to economic growth, the thing that also affects the poverty rate in a region is human resources. This study is also supported by (Kartasasmita, 1996) who explains the causes of poverty. First, poor health conditions and inadequate nutrition cause physical endurance, thinking power and initiative to be low which will then reduce productivity. Secondly, the low level of education causes people to have limited skills. Third, limited employment opportunities. Fourth, isolated areas and conditions,

making it difficult to carry out economic activities due to limitations. The link between health and education in the causes of poverty is also reinforced that education reduces the poverty level, if the population over 15 years old adds years of schooling, it will reduce poverty and if life expectancy at birth increases, the poverty rate will also decrease (Nurjati, 2021). In the past five years, the highest GDPR positions are DKI Jakarta, West Java, Central Java, East Java and North Sumatra, but the lowest GDPR is occupied by Gorontalo, Maluku, West Sulawesi, Gorontalo. Papua's position from 2019-2022 is growing and rising significantly but in 2023 Papua is in 9th place with the lowest GDPR.

This reflects human quality, aiming for the population to have many choices in education, health and income, which is measured through the human development index (HDI), which consists of three dimensions, namely health, which is seen from a long and healthy life; education, which is seen from the average length of schooling, school expectancy and school participation; and per capita expenditure, which is seen from average amount of money that individual spend for daily needs (BPS, 2023). The UNDP publication shows that a high HDI ranking relative to GDP per capita indicates that the country's economy benefits its people (Shome & Tondon, 2010). A high level of human development determines the ability of its people to manage and absorb sources of economic growth either through institutions or through technology (Wicaksano, 2014). According to Ginting (2008), the paradigm of human development / quality in Indonesia is to reduce poverty and at the same time improve the economy. Based on some research results, there is an era correlation between the human development index (HDI), economic growth and poverty.

Research conducted by (Nabila, 2021) shows that there is a negative relationship between HDI and poverty rate, indicating that if HDI rises it will decrease poverty rate. Meanwhile, the Human Development Index (HDI) and economic growth have a positive relationship, meaning that the higher the human development index, the higher the economic growth.

One other aspect that also affects economic growth in a region is unemployment. Fluctuating economic growth greatly affects the absorption of labor, which is also related to unemployment. Unemployment is someone who has been categorized as a part of the labor force but has not yet found a job (Sukirno, 2012). As explained in Okun's Law, economic growth and unemployment have a very close and negative relationship, it means when unemployment in an area increases, the growth rate will also slow down. It can be said that the high unemployment rate causes a slow rate of economic growth, which then triggers poverty in an area (Mardiatillah et al., 2021). The provinces with the lowest number of poor people are occupied by the provinces of North Kalimantan, Kep. Bangka Belitung, North Maluku and Central Kalimantan, while the provinces with the highest unemployment are East Java, West Java, Central Java, North Sumatra and NTT, while Papua is able to maintain a stable total of poor people, but this is not an achievement, because Papua is ranked 27th out of 39 provinces.

Supported by (Mardiatillah et al., 2021) research that found that there is an insignificant relationship between the unemployment rate and economic growth, this research was conducted in the province of East Java in 2011-2010, in line with the findings of the study by (Siwi & Ashari, 2022) which shows the same results that unemployment rate is significant toward economic growth, as well as other supporting research done by (Paramita et al, 2015) states that the unemployment rate has a significant effect toward economic growth in Bali Province.

All of the provinces in Indonesia, experienced an increase in HDI as well as Papua Province which also experienced an increase, the increase in the index that occurred at the provincial level reflected that the cities and districts of the province also experienced an increase. Based on 2019 data, Jayapura City is the only region with a very high category (80.16). Although the HDI in each city and district of Papua Province in 2019 tended to increase, the disparity between the highest HDI and the lowest HDI was still very high, amounting to 160.88% (BPPD Papua Province, 2020). The highest HDI is occupied by the provinces of Jakarta, DI Yogyakarta, KEP. Riau

and Bali consistently in each year becoming five top provinces with highest HDI in the past five years, Papua province became the province with the lowest HDI during 2010-2021 before the regulation of expanding region into some new provinces, after the expanding new provinces became the province with the lowest HDI.

The education dimension of the HDI as measured by school expectancy has increased, but remains low compared to the national average and that of other provinces in Indonesia. The reality of school expectancy and the expectations of the local government of Papua Province are still far away. As much as 46.6% (as of 2022) of the population of Papua Province is no longer in education, this low indicator is due to high poverty and income inequality, poverty and these limitations make it difficult for school children in Papua Province to get an education (Navoleon et al., 2023).

The opposing view between previous studies and this study is grouping the districts and cities in Papua province (29 districts and cities) into eight districts and one in Papua Province, this rule is based on Law number 14 in 2022 concerning the establishment of South Papua Province, Law number 15 in 2022 concerning the establishment of Central Papua province and Law number 16 in 2022 concerning the establishment of the province of Papua Mountains so that this research becomes a new research in the discussion of the Papua region which has been grouped. Therefore, the title is "Panel Vector Error Correction (PVECM) Model in Human Quality, Unemployment, Economic Growth on Poverty in Papua Province"

1.2. Formulation of Problem

1. Does human quality affect poverty in the short run?

2. Does human quality affect poverty in the long run?

3. Does unemployment affect poverty in the short run?

4. Does unemployment affect poverty in the long run?

5. Does economic growth affect poverty in the short run?

6. Does economic growth affect poverty in the long run?

1.3. Research Purpose

1. To see the relationship between human quality and poverty in the short term

2. To see the relationship between human quality and poverty in the long term

3. To see the relationship between unemployment and poverty in the short term

4. To see the relationship between unemployment and poverty in the long term

5. To see the relationship between economic growth and poverty in the short term

6. To see the relationship between economic growth and poverty in the long term

1.4. Benefit of Research

1. For the author, this research is supposed to be a source of empirical knowledge and test the author's knowledge during education.

2. In terms of academics, this research is expected to be another reference for similar research in the economic field.

3. For readers, this research is expected to be able to provide new views and knowledge related to research variables.

4. For the community, this research is expected to be a source that can be used to make policies on economic programs related to research variables