

CHAPTER I

INTRODUCTION

1.1. Identification Problem

Development is essentially a process of change towards a more constructive situation. This change aims to realize equal distribution of welfare and justice in people's lives. It is characterized by the addition of value and use in many aspects of society's socio-economic life. The purpose of development is essential to equalize welfare and justice indicated by the ability of the community in the fulfillment of basic needs, improvement of quality of life, and the smaller inequality between residents, regions, and sectors. (Darius et al, 2021).

Regional development is a process that exists between the government and society to achieve common goals and encourage economic growth. Good regional development will support national development. In general, regional development is focused on economic development through economic growth efforts (Liu et al, 2019). The main problem facing Indonesia as a maritime country is the difficulty of carrying out centralized economic development and setting priorities for national development policies which are sometimes not in accordance with the specificities of regions in Indonesia. Although rapid growth can be achieved with quite different policy allocation, each of the main strategies encounters a somewhat different set of problems (Chenery& Elkington. 1979).

Therefore, national development planning is divided into regional development planning. The central government then issued law number 22 of 1999 / number 32 of 2004 concerning regional autonomy and law number 25 of 1999 / number 33 of 2004 concerning central and regional financial balancing. The presence of these two laws has a very important role for the regions, because matters of policy determination, resource management and financing which have previously been handled by the central government, are handed over to regional governments. Geographical and geological differences make regions in Indonesia each unique. These differences make these regions have different potential. It is hoped that with

the issuance of this law, each region can focus on maximizing potential sectors to support the regional economy. The contributions made by each sector are then contributed to the formation of GRDP (Prishardoyo, 2008).

The regional development that happened in Maluku Utara is claimed as one of the national development goals, which aims to improve the welfare of people's lives in a fair and equitable manner, both from a social and economic perspective. The potential resources possessed by Maluku Utara have brought Maluku Utara to become the province with the highest GDP contribution in INDONESIA in 2023, surpassing the national achievement of 5.05% which can be seen in table 1.1 as follows:

Table 1.1 10 Provinces with The Highest GDP Growth Rate at 2010 Constant Prices in Indonesia in 2016-2023 (percent)

Provinsi	2016	2017	2018	2019	2020	2021	2022	2023
MALUKU UTARA	5.77	7.67	7.86	6.25	5.39	16.79	22.94	20.49
SULAWESI TENGAH	9.94	7.1	20.6	8.83	4.86	11.7	15.17	11.91
SULAWESI SELATAN	7.42	7.21	7.04	6.91	-0.71	4.64	5.09	4.51
SULAWESI TENGGARA	6.51	6.76	6.4	6.5	-0.65	4.1	5.53	5.35
SULAWESI UTARA	6.16	6.31	6	5.65	-0.99	4.16	5.42	5.48
KALIMANTAN TENGAH	6.35	6.73	5.61	6.12	-1.41	3.59	6.45	4.14
GORONTALO	6.52	6.73	6.49	6.4	-0.02	2.41	4.04	4.5
DI YOGYAKARTA	5.05	5.26	6.2	6.59	-2.67	5.58	5.15	5.07
PAPUA	9.14	4.64	7.32	-15.74	2.39	15.16	8.97	4.2
SUMATERA SELATAN	5.04	5.51	6.01	5.69	-0.11	3.58	5.23	5.08

Source: Badan Pusat Statistik, 2025

From table 1.1 it can be seen that in the 3 year period from 2021 to 2023, Maluku Utara province experienced a significant and consistent increase in growth rate. Starting in 2021, the GRDP growth rate of Maluku Utara province reached 16.79%, an increase of 11.4%, compared to 2020 which was only 5.39%. The increase continues with a value addition of 6.18%, so that in 2022 the growth rate will increase to 22.94%. Then in 2023, the GDP growth rate of Maluku Utara province will be 20.49%. When compared to 2016, there has been an increase of 14.27%. While the increase that happened from 2016 to 2020 is only around 2%.

The reason behind why this is happening is because of the mining and quarrying of the nickel. Cumulatively, North Maluku's exports from January to July

2021 amounted to US\$1,697.13 million, an increase of 327.39 percent compared to the January-July 2020 period of US\$397.09 million. North Maluku's exports in July 2021 consisted of Iron and Steel (HS 72) to China, South Korea, and Taiwan, and Nickel (HS 75) to China. (Central Statistics Agency, 2021) This nickel export boom was accompanied by a sharp increase in global nickel prices from US\$8,299 per metric ton in February 2016 to US\$20,016 in December 2021.

The process of the rate of economic growth in a region is shown using the growth rate of GRDP (gross regional domestic product), so that the increase in GRDP per capita becomes a benchmark for society in achieving success in regional economic development. In the end, maximizing regional resource utilization will provide a large sector contribution to GRDP, then trends in regional economic structure will be visible or in other words structural transformation will occur. Structural transformation can be seen from the increase in value of GDP. So, the rise in GDP could both be seen as cause and effect of structural transformation or vice versa. This structural change is both a cause and an effect of rising income. (Chenery& Elkington, 1979).

Structural transformation is a condition where there is a change in the contribution of the main sectors to the GDP of a region. The main contribution change occurs from the primary sector (agriculture) which has low productivity to the secondary sector (industry) and tertiary (services) which has high productivity. The classical theorem of structural transformation goes back to Hollis B. Chenery, Arthur Lewis and Simon Kuznets in the 1940s and 1950s as the movement of population and economic activity from agriculture to industry. (Kanbur, 2016)

Based on W. Arthur Lewis's theorem in 1954 which is known as Lewis two sector models, transformation of economic structure that heads off from the traditional agricultural sector to a more modern economic sector happens in developing countries. It is more centralized towards urban life, and has a more varied manufacturing industrial sector and a strong service sector. Lewis's theorem is known

as "instance" theory that discusses the process of development in third world countries that experience an excess supply of labor. (Todaro, 2004). High population growth in rural areas causes an excess supply of labor which is not directly proportional to the availability of employment opportunities.

Lewis's theory is supported by Clark who has conducted research and collected statistical data regarding the percentage of the workforce working in the primary, secondary and tertiary sectors in several countries. The data he collected shows that the higher a country's per capita income, the smaller the role of the agricultural sector in providing employment opportunities, but on the other hand, the industrial sector plays an increasingly important role in accommodating the workforce. (Sadono Sukirno, 1985). The transformation of the economic structure in Maluku Utara province can be seen from the change in the contribution of the agricultural sector to the industrial sector to the GRDP of Maluku Utara province which can be seen in attachment 1.

The increase in GDP growth rate that occurs cannot be separated from the role and contribution of sectors that contribute to GRDP. The contribution of the sectors would show how the transformation is happening, because there is the shift from one sector to another that indicates the economic transformation that the region might experience. From attachment 1 it can be seen that Maluku Utara province has experienced an increase in contribution to the processing industry sector. In 2020, the industrial sector contributed 60.98% to the formation of GDP. This sector experienced a very high increase of 59.76% compared to the previous year, where the contribution of the industrial sector in 2019 was only around 1.22%. In the following year the industrial sector continued to experience significant and consistent increases. Meanwhile, in 2020, the agricultural sector experienced a decline in contribution of 2.61%. In 2019, the agricultural sector contributed 4% to GRDP, and in 2020 it decreased to 1.39%. The change in the contribution of this sector indicates a structural transformation in the economy of Maluku Utara province.

When structural transformation occurs, the resulting economic development does not necessarily grow without other obstacles. Inequality is a concern that is

always related to economic growth. In Kuznets's classic paper that was released in 1955, Kuznets urged that in the early phase of economic development, inequality will increase. Kuznets explains how inequality tends to happen in the first stage of economic growth in developing countries. Regional economies inequality is a condition that occurs in almost all countries. High economic growth should be accompanied by GRDP distribution to anticipate inequality.

The rapidness of structural transformation may change a trade-off between growth and inequality, which may be called the developer's dilemma (Sumner, 2017). Maluku Utara province is experiencing a phenomenon where the rate of economic growth is very high, but has low GDP distribution. As Kuznets argued, while the inequality started to increase at the early stages of structural transformation, beyond a definite level of structural transformation, inequality will slowly decrease, giving the motion to the famous inverted u-shaped relationship between income and inequality – the so-called Kuznets Curve. (Baymul & Sen, 2020).

The dominance of the mining and quarrying sector generates significant foreign exchange, but this sector's dominance raises concerns about economic dependence on non-renewable natural resources. This phenomenon is often associated with the "resource curse" theory, a paradox where resource-rich regions experience economic inequality and slow sustainable development. Dependence on nickel exports makes North Maluku's economy highly sensitive to global price fluctuations. Declining nickel prices can directly impact regional income and business continuity, especially in regions where nickel is a major contributor to GDP, such as Halmahera Tengah. This can undoubtedly trigger inter-regional inequality and income disparities.

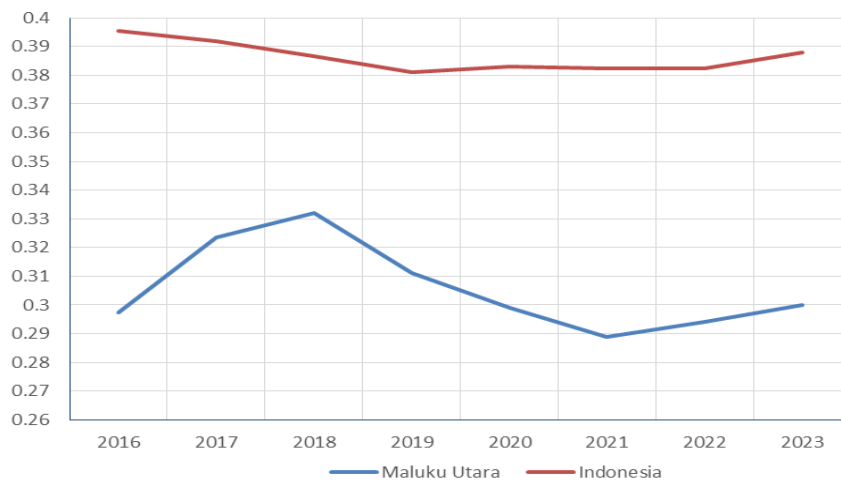


Figure 1.1 Gini Ratio of Maluku Utara Province 2016-2023

Source: Badan Pusat Statistik, Various Years, processed.

As is known, Maluku Utara province experienced very high economic growth at 20.49%, far exceeding Indonesia which was only around 5%. However, this higher rate of economic growth is unaccompanied by decreasing inequality constantly. Maluku Utara province has a fluctuating Gini ratio number in 2016-2023. Even though the Gini ratio of Maluku Utara were already high in 2016 to 2020, it even decreased for a while in 2021 where the economic growth began to be higher, but it increased again in 2022 and 2023. In 2016, the GDP growth rate of Maluku Utara province was around 5.77%, while the Gini ratio was around 0.297. The inequality that happened in 2016 was low. Income inequality in society is said to be low if the Gini coefficient is below 0.3. (Wibowo, 2016). In 2023, when the GDP growth rate becomes the highest in Indonesia at 20.49%, the Gini ratio reaches 0.3, which could be said that the inequality is in the middle condition. But, the gini ratio of Maluku Utara is still lower than the Gini ratio of Indonesia, which is always above 0.3 from 2016 to 2023. So, it has the contradiction with what Kuznets says about, when Maluku Utara Province tends to grow that could be said even faster, unpredictably the Gini Ratio does not increase massively.

However the fluctuation of Gini Ratio in Maluku Utara province is something that needs to be looked at. For this reason, it is necessary to have a policy in the form

of utilizing basic sectors from each region in Maluku Utara province to advance the economy of the region concerned in order to reduce the inequality that occurs. From the background above, it is necessary to carry out research with the title ***Analysis of Structural Transformation and Inequality between Regencies/Cities in Maluku Utara Province***

1.2. Problem Formulation

The implementation of development in Maluku Utara province is aimed at realizing the socio-economic welfare of the community and regional economic growth. Without economic growth, economic development will not be successful. However, economic growth that occurs must be accompanied by equal distribution of development results, so that community welfare will be fair and equitable.

The growth of the Regional economy could be shown by the development of real GDP. Apart from economic growth, a strong and resilient economic structure will strengthen the economy of Maluku Utara province. During the period 2016-2023 there was dynamic economic growth and changes in economic structure in Maluku Utara province.

An economic structure supported by a competitive and specialized sector will spur the development of gross regional domestic product in Maluku Utara province. Based on the background above, it can be seen that economic disparities have occurred in Maluku Utara province. For this reason, researchers will analyze the occurrence of economic disparities using LQ, Shift Share, Williamson index, Theil index and Klassen analysis tools. In this regard, the following research questions are asked:

1. Is structural transformation occurring in Maluku Utara province?
2. What are the basic sectors and non-basic sectors in Maluku Utara Province?
3. What are the disparities between regencies/cities in Maluku Utara province?

1.3. Research Objectives

The objectives to be achieved in this research are:

1. To analyze the structural transformation that occurred in Maluku Utara Province.
2. To analyze basic and non-basic sectors in Maluku Utara Province
3. To analyze the inequality between regions that occurs in Maluku Utara Province.

