

## Controlling the Level of Inequality through Economic Growth in Papua Province

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**Abstract:** A high level of economic growth in a country only sometimes reflects a similar increase in all regions. Disparities in economic growth between regions often occur, even when overall economic growth has increased. This research aims to analyze the influence of economic growth on the level of regional inequality in Papua Province. This research is explanatory research that uses the causality method. The secondary data used in this research is collected by conducting documentation studies at several Papuan government agencies. This research was conducted in Papua Province because it is one of the provinces with a high level of regional inequality in the Republic of Indonesia. The data in this research was obtained using document study techniques. Data analysis techniques are carried out using data collection, data reduction, and data categories. This research shows that economic growth has a negative and significant effect on regional inequality in Papua Province, where increasing production in all economic sectors can create jobs, increase income and reduce the unemployment rate, so regional inequality in Papua Province can be reduced. In the future, the Papua Provincial Government will need to implement strict policies regarding mining activities' environmental and social impacts. The Papua Provincial Government also needs to increase economic diversification by strengthening non-mining sectors to reduce dependence on the mining and quarrying sector.

**Keywords:** Economic Growth, Regional Inequality.

### 1. INTRODUCTION

National development is one of the steps to achieve the country's vision, namely improving the welfare of society evenly and prosperously, materially and spiritually. In order to realize this vision, various national development activities are focused on equitable development in all regions, especially in areas still classified as underdeveloped and with low financial capacity to carry out development. Regional governments are expected to work with the central government, the private sector, and the community to optimize all existing resource potential and improve regional capabilities (Putra *et al.*, 2020).

Regional development is generally directed at development in the economic sector. This is because economic development is believed to support and encourage development in other areas in the region and reduce disparities between regions (Munthe *et al.*, 2021). Economic development is a process that involves broad transformations in social structures, societal attitudes, and national institutions. This process aims to accelerate economic growth, reduce inequality and eliminate poverty (Jeníček, 2016). Successful economic

development is often identified with high economic growth, where a country's Gross Domestic Product (GDP) increases significantly from year to year. However, quality economic growth also includes reducing economic disparities between various segments of society and improving the overall quality of life.

A country's high economic growth level sometimes reflects a similar increase in its regions. Disparities in economic growth between regions often occur, even when overall economic growth has increased. This can be caused by limitations in the potential of natural resources, human resources, and institutions or institutions that support economic growth in an area.

Differences in economic growth between regions tend to cause the concentration of economic activities in certain areas while other areas become marginalized. Regions that experience rapid economic growth will become economic centers that attract investment, create jobs and provide adequate infrastructure. On the other hand, regions that experience slow economic growth will need help attracting

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investment and creating sufficient job opportunities. With the concentration of economic activities in certain areas, there will be inequality in development between regions.

Papua Province is one of the provinces at the eastern tip of Indonesia, which is rich in natural resource potential. This province has high-value mineral resources, abundant forest products, river resources for large power plants, and other potentials such as extraordinary natural panoramic beauty. Facts show that, despite having abundant natural resource potential, there is inequality in the development of Papua Province compared to other provinces in Indonesia, which is still very far away. Economic growth fluctuates significantly, with an average value of 3.87 percent. Meanwhile, the Williamson Index in Papua Province for 2011–2021 is still relatively high, with an average value of 1.78 points, which means that development inequality in Papua Province is still vast.

Inequality between regions arises due to disparities in natural resource content and differences in demographic conditions in each region, which results in variations in the capability of a region to encourage the development process. This disparity in regional wealth ultimately creates polarization between developed and underdeveloped regions. Based on the description of the research background above, this phenomenon needs to be studied in depth through empirical research.

This research aims to analyze the influence of economic growth on the level of regional inequality in Papua Province. The benefits of this research are expected to provide helpful information for scientists and researchers to test and evaluate existing theories about regional inequality, provide helpful information for the government in preparing appropriate development programs according to regional needs, and provide helpful information for developing effective strategies and policies to reduce regional inequality in the future.

## 2. LITERATURE REVIEW

Pursuing economic growth is the main focus of the current global economy (Sohag *et al.*, 2019). This is because economic growth reflects the economic activity of a country. The success or failure of a country's development program is often judged based on its level of economic growth. Therefore, economic growth is a significant key indicator for analyzing the progress of a country or region.

Economic growth is a process that shows an increase in output per capita over a long period. This understanding includes three key elements: the process itself, increasing output per person, and long duration (Basuki *et al.*, 2020). Economic growth is a process that describes economic dynamics, not just economic conditions at a particular time. It reflects how the economy develops and changes over time.

Economic growth is a process that shows an increase in output per capita over a long period. This understanding includes three key elements: the process itself, increasing output per person, and long duration (Basuki *et al.*, 2020). Increasing economic growth is one of the macroeconomic goals, in addition to other goals, such as reducing unemployment, inflation stability and monetary stability (Muzdalifah & Siregar, 2017).

In the process of economic development, economic growth will sustainably take place. However, economic growth that needs to be balanced with justice and equality will directly impact the emergence of development disparities between regions (Sabban, Sanusi and Supriadi, 2022; Saifuddin, Sanusi and Harsono, 2023). Development inequality between regions can be seen in developed and underdeveloped or less developed regions (Sjafrizal, 2016). For this reason, an economic growth policy accompanied by equal income distribution is needed. According to Kutscherauer (2010), regional inequality is a difference or dissimilarity in characteristics, phenomena or location conditions and occurs at least between two regional structural entities. According to Kuznets (1955), the problem of inequality is a consequence of economic development and growth, and inequality will increase in the early stages of economic development. Simon Kuznet also mentioned the main factors causing inequality, namely the concentration of capital in high-income groups, a shift from the agricultural sector to the more advanced industrial sector, and the availability of different natural resources (Vo *et al.*, 2019).

The initial hypothesis of this research is that economic growth has a negative and significant effect on regional inequality in Papua Province.

In a somewhat more pessimistic assessment, Scheidel 2017 in Peterson (2017a) argues that increasing inequality is a fundamental characteristic of civilized societies only slowed by war, revolution, civil unrest in failed states, and widespread disease outbreaks. Whatever the causal mechanism, levels of economic inequality in most high-income countries are declining from very high levels.

## 3. METHODOLOGY

### 3.1 Research design

This research is explanatory research that uses the causality method. The secondary data used in this research is collected by conducting documentation studies at several Papuan government agencies.

### 3.2 Research Location

This research was conducted in Papua Province because it is one of the provinces with a high level of regional inequality in the Republic of Indonesia.

### 3.4 Data Types and Sources

The type of data used in the research is quantitative in the form of annual time series data from 2011-2021. The data source for this research uses secondary data.

### 3.5 Data Collection Procedures

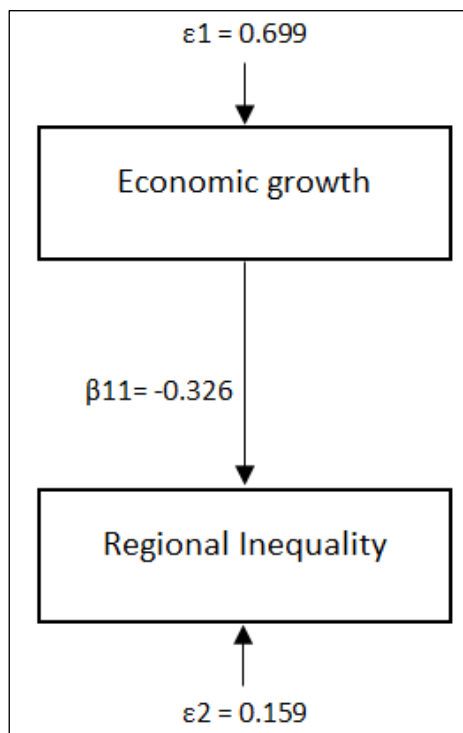
In connection with the use of secondary data in this research, the data was obtained using document study techniques, namely collecting data through documents that are available or have been published by other parties.

### 3.6 Data Analysis Techniques

Path analysis techniques were used to examine the pattern of relationships between variables to assess the direct and indirect influence of the independent variables to answer this research question and test the proposed hypothesis.

## 4. RESEARCH RESULT

The results of this research hypothesis testing are as follows:



### Results Study

This shows that economic growth negatively and significantly affects regional inequality in Papua Province. Based on the analysis results in Table 15, the coefficient path of economic growth to regional inequality has a negative value of -0.326 with a p-value of 0.017, which is smaller than the significance level of 0.1. This shows that economic growth negatively and significantly affects regional inequality in Papua Province. Thus, this research hypothesis was tested.

## 5. DISCUSSION OF RESEARCH RESULTS

Based on the results of the analysis, it was found that economic growth had a negative and significant effect on regional inequality in Papua Province. The results of this analysis provide the meaning that increasing economic growth can significantly impact reducing regional inequality in Papua Province.

The significant influence of economic growth on regional inequality in Papua Province is due to the even growth in various economic sectors during the 2011-2021 period (Papua *et al.*, Agency, 2021). During this period, all economic sectors in Papua Province experienced growth, except 2020, as a result of the COVID-19 pandemic, with the construction sector being the most dominant, with an average annual growth of 8.44 percent. Significant growth also occurred in the real estate sector (7.35 percent), the health services sector and other social activities (6.99 percent), the information and communications sector (6.69 percent), and the trade sector (6.63 percent).

The construction sector experienced the highest growth due to the development of various infrastructure projects implemented in the region. Investment in the construction sector creates new jobs and increases economic activity in the surrounding area. One of the main infrastructure projects that has contributed significantly to the growth of the construction sector in Papua Province is the construction of the Trans Papua Road project. This project significantly impacts the region's economy and development and opens up better accessibility between various districts in Papua Province. As a major highway project, the Trans Papua Road facilitates the mobility of goods and services and becomes an essential foundation for broader economic growth.

The real estate sector also has a vital role in the economic growth of Papua Province. The property sector's growth, which reached 7.35 percent per year, shows an increase in development and investment activities in the property sector. This indicates the interest of investors and developers in developing property projects in Papua Province, which in turn can make a significant contribution to economic growth and reduce regional inequality. The health services sector and other social activities also play a role in the economic growth of Papua Province. With an average growth of 6.99 percent annually, this sector reflects increasing investment and attention to community welfare. Increasing accessibility to health services and social activities can improve people's quality of life, reducing regional inequality.

Next is the information and communications sector, which grew by 6.69 percent per year, indicating the development of technology and communications in Papua Province. Increasing accessibility to technology and information can open up new opportunities for

economic growth and increased productivity. Thus, this sector not only directly impacts economic growth but can also be a catalyst for the development of other sectors in the region. On the other hand, the trade sector grew by 6.63 percent per year, reflecting increased economic activity and business growth in Papua Province. Increased trade growth indicates increased buying and selling activities, which can create new opportunities for business development and job creation. With increased trade activity, Papua Province can be more involved in regional and national markets, bringing more equitable economic benefits.

The increasing growth in the production of goods and services in various economic sectors causes an increase in people's income. With increasing income, people's purchasing power increases, which triggers increased consumption of goods and services. In addition, job opportunities that open up due to economic growth can reduce unemployment. This increase in income and employment ultimately increases community welfare and reduces regional inequality in Papua Province.

Increased prosperity and economic opportunities derived from economic growth create more stable conditions for sustainable development in Papua Province. Thus, the significance of the influence of economic growth on regional inequality in Papua Province can be explained by equal growth in various economic sectors, which ultimately creates a more inclusive and sustainable economic environment. This positive impact is visible in reducing regional inequality and increasing the Human Development Index (Papua *et al.*, Agency, 2022).

Increasing economic growth has great potential in reducing regional inequality in Papua Province. This finding is in line with the theory proposed by Sjafrizal (2016), which states that the economic growth of a region reflects the success of economic development in that region. Success in increasing the economic growth rate reflects the region's ability to carry out economic development effectively. With an even increase in per capita income, social welfare can be achieved, and inequality can be minimized. Therefore, encouraging economic growth is an effective strategy to reduce regional inequality in Papua Province.

This finding also aligns with the opinion of Kuznets (1955), who stated that in the short term, the higher economic growth, the more significant the gap between poor and wealthy groups. In the long term, reduced income disparities will accompany increased economic growth. In the context of Papua Province, this opinion reflects that although economic growth initially creates inequality, exemplary efforts and policies can reduce inequality in the long term. Steps such as increasing access to education and training, creating inclusive job opportunities, and welfare programs

targeting vulnerable groups need to be taken to ensure that various levels of society genuinely feel the benefits of economic growth. Thus, Kuznets' view provides the perspective that inequality can occur in the early stages of economic growth, but there is an opportunity to reduce it significantly through policies that support inclusiveness and redistribution in the long term. In its implementation, the Papua Provincial Government can design an economic development strategy that encourages growth and ensures that the entire community can feel the benefits equally. In the short term, the Papua Provincial Government can implement a strategy that includes several key steps, such as skills development and workforce training, to improve the quality of the local workforce and make it more competitive in a complex job market. In addition, improving infrastructure accessibility, such as transportation and communications networks, will help reduce regional disparities and expand local market reach. Incentives or stimuli also need to be provided to encourage local investment to stimulate economic sectors that have yet to be fully explored and spur the growth of potential sectors.

Furthermore, strengthening the MSME sector through support policies and access to capital and markets will empower local entrepreneurs to develop and create new jobs. In addition, there is a need to strengthen redistribution and social protection programs to ensure the welfare of vulnerable society groups and that economic benefits reach them directly. Finally, improving the quality of public services such as education and health is a strong foundation for inclusive and sustainable human development.

The results of this study support the findings reported by Farida *et al.*, (2021), which analyzes the influence of fiscal decentralization, economic growth, and regional development inequality in Eastern Indonesia during the 2016-2019 period. The researchers found that economic growth negatively and significantly affected inequality in Eastern Indonesia. This can be explained by the concept of convergence, which implies that the spread effect in sustainable development can produce economic convergence in various regions. Noneconomic factors that play a role in the cumulative process of economic change, together with increases in market size, cause economic growth to spread to regions that previously might have been suppliers of resources, thereby reducing regional development inequality. Some conditions that indicate convergence include market saturation, reducing the attractiveness of early growth centers, increasing demand for labor in underdeveloped areas, and government action to improve infrastructure in these areas.

Consistent findings between the results of this study and the research of Farida *et al.*, (2021) can contribute to understanding the dynamics of economic growth and regional inequality, especially in Papua



Province. The finding that economic growth can reduce regional inequality in Papua Province is in line with the concept of convergence, which indicates that the spreading effect of economic development can produce economic convergence between regions, ultimately reducing regional inequality. This is proven by the even distribution of economic growth in various sectors, such as construction, real estate, health services, information and communication, and trade, indicating that these sectors make a significant contribution to the economic growth of Papua Province. Through equal growth in various sectors, Papua Province has achieved economic convergence, which can be seen in the reduction in regional inequality. When regions with initially lower levels of economic growth experience faster growth, inter-regional disparities can decrease. This aligns with the concept of convergence, which emphasizes reducing economic inequality between regions.

## 6. CONCLUSIONS AND RECOMMENDATIONS

### 6.1 CONCLUSION

Based on the results of the analysis and discussion, several conclusions can be drawn that economic growth has a negative and significant effect on regional inequality in Papua Province, where increasing production in all economic sectors can create jobs, increase income and reduce unemployment levels, so that regional inequality in Papua Province can be achieved.

Suggestions that researchers can give in the future to ensure the sustainability of Papua Province's economic growth through the mining and quarrying sector: The Papua Provincial Government needs to implement strict policies regarding the environmental and social impacts of mining activities. The Papua Provincial Government also needs to increase economic diversification by strengthening non-mining sectors to reduce dependence on the mining and quarrying sector. Investments in education and skills training for residents should also be prioritized to increase local community participation in jobs generated from the mining and quarrying sector.

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