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Leading Sector Analysis of Regional Economic Growth

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Abstract

This research aims to analyze the influence of leading sectors on regional economic growth in Makassar City during the 2015-2020 period. The leading sectors analyzed include the processing industry sector, wholesale and retail trade, and the tourism sector. This research uses quantitative methods with a descriptive approach and multiple linear regression to determine the relationship between leading sectors and economic growth. The data used in this research is secondary data obtained from the Central Statistics Agency (BPS) and other related agencies in Makassar City. The results of the analysis show that the processing industry sector has a significant and positive influence on regional economic growth. The wholesale and retail trade sectors also show a positive contribution but are not statistically significant. Meanwhile, the tourism sector shows a significant positive influence on economic growth. Overall, this research finds that the development of certain leading sectors can encourage regional economic growth in Makassar City. Therefore, it is recommended that local governments continue to strengthen and develop these sectors through appropriate policies and investments. Apart from that, economic diversification also needs to be considered to ensure the sustainability of regional economic growth in the long term.

Keywords:Regional Economic Growth, Leading Sectors

INTRODUCTION

Regional economic growth is one of the main focuses in national development efforts in Indonesia. In this context, leading sectors play a vital role in influencing economic dynamics in various regions. Leading sectors can be defined as economic sectors that have competitive and comparative advantages in a region, and have a significant contribution to Gross Regional Domestic Product (GRDP). Leading Sectors in Regional Economic Growth in Indonesia

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Regional economic growth is one of the main objectives in Indonesia's national development. Each region in Indonesia has different economic characteristics, which are influenced by various factors such as natural resources, geographical location, and demographic and social structures. In this context, the leading sector plays a very important role in driving economic growth in each region. The leading sector is an economic sector that has comparative and competitive advantages and has the potential to make a significant contribution to the Gross Regional Domestic Product (GRDP).

Significance of Leading Sectors Leading sectors have a very strategic role in the regional economy because they can be the main driver in achieving sustainable economic growth. Here are some reasons why leading sectors are very important for regional economic growth in Indonesia: Increasing Regional Income

Leading sectors can create jobs and increase people's income in the area. For example, the tourism sector in Bali has contributed greatly to regional income and created many jobs for local residents. Income from the tourism sector also has a positive impact on other sectors such as transportation, hospitality, and trade. Economic Diversification Developing leading sectors helps regions reduce dependence on just one or two economic sectors. This diversification is important to reduce economic risks that may arise from fluctuations in commodity prices or changes in market demand. For example, Kalimantan, which initially depended on the mining and natural resource sectors, is now starting to develop the agricultural and processing industry sectors to balance its economic structure.

Infrastructure Development The existence of leading sectors often encourages the development of better infrastructure. This infrastructure not only serves the needs of the sector but also improves connectivity and public facilities in the area. For example, the construction of roads, ports, and airports in areas with a rapidly growing tourism sector, such as in Lombok and Labuan Bajo. Adoption of Technology and Innovation Leading sectors are often the main drivers in the adoption of new technologies and innovations. For example, the agricultural sector in East Java has adopted modern agricultural technology that helps increase productivity and efficiency. This technology not only increases agricultural output but also encourages the growth of related industries such as agricultural processing and distribution. Although leading sectors have many benefits, there are several challenges that must be faced to optimize their contribution to regional economic growth: Regional Inequality One of the main challenges is regional inequality that may occur if only a few regions succeed in developing their leading sectors. For example, Java Island has a more advanced industrial and service sector compared to other regions such as Papua, which is still dominated by the agricultural and mining sectors. This inequality can

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cause significant differences in the level of welfare and development between regions. Exploitation of Natural Resources

Dependence on natural resource-based sectors, such as mining and plantations, can lead to over-exploitation and environmental damage. In addition, limited natural resources also raise concerns about the sustainability of these sectors in the future. Therefore, policies are needed to regulate the use of natural resources sustainably. Uneven Development The development of leading sectors in several regions is often not followed by equitable infrastructure development and policies. This can cause leading sectors in certain regions to develop faster than others, thus widening the economic gap between regions. Despite the challenges, there are many opportunities that can be utilized to encourage the development of leading sectors: Development of Special Economic Zones (SEZs) The Indonesian government has developed Special Economic Zones (SEZs) in various regions to encourage the growth of leading sectors. SEZs are designed to attract investment by providing various incentives such as tax breaks and ease of licensing. For example, the Mandalika SEZ in Lombok focuses on the development of the tourism sector, while the Sei Mangkei SEZ in North Sumatra focuses on the palm oil processing industry. Sustainable Tourism The development of a sustainable tourism sector can be a major driver of the economy in various regions.

Sustainable tourism not only maintains the sustainability of the local environment and culture but also ensures sustainable economic benefits for local communities. For example, the development of ecotourism in Komodo National Park attracts international tourists while maintaining the sustainability of the Komodo habitat. Digital Infrastructure The improvement of digital infrastructure provides great opportunities for the development of leading sectors based on information and communication technology (ICT). For example, the cities of Bandung and Jakarta have become centers for technology startups that develop various innovations in the fields of fintech, e-commerce, and other digital services. Strong digital infrastructure also supports the development of the creative economy and industry 4.0. Leading sectors have a strategic role in driving regional economic growth in Indonesia. The successful development of this sector can increase regional income, economic diversification, infrastructure development, and the adoption of technology and innovation. However, to optimize the contribution of leading sectors, policies are needed that support sustainable and equitable development. Challenges such as regional inequality, exploitation of natural resources, and uneven development must be addressed through inclusive and sustainable strategies. With the right approach, leading sectors can become the main pillar in achieving sustainable and equitable economic development throughout Indonesia. Makassar City, as the center of economy and

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trade in Eastern Indonesia, has several leading sectors that significantly contribute to its regional economic growth. One of the main sectors is the processing industry, which includes various activities such as food and beverage processing, textiles, and chemical products. This industry not only creates jobs for local people but also increases the added value of the products produced, which are then marketed to various other regions and internationally. The existence of a strong processing industry is an important pillar in the economic structure of Makassar. The wholesale and retail trade sector is also the backbone of Makassar's economy. The city functions as the main distribution center in the Eastern Indonesia region, with trade activities involving traditional markets, modern shopping centers, and inter-island trade activities. The contribution of this sector to the city's economy is very significant, because in addition to supporting daily economic activities, this sector also helps drive the transportation and logistics sector. Good trade infrastructure ensures the smooth flow of goods and services, increasing efficiency and local economic growth.

Tourism is another leading sector that drives economic growth in Makassar. With famous tourist attractions such as Losari Beach, Fort Rotterdam, and Samalona Island, the city attracts many domestic and international tourists every year. The tourism sector not only increases regional income but also creates business opportunities and jobs in the hotel, restaurant, and transportation sectors. Well-developed tourism also promotes Makassar as a leading destination, strengthening the city's image on the national and international stage. In addition, the service sector, including financial services, education, and health, also makes an important contribution to Makassar's economic growth. The presence of various financial institutions, renowned universities, and high-quality health facilities, provide important services to the community and business actors. This service sector plays a role in improving the quality of life of city residents and supporting other economic sectors through the provision of professional services and improving the quality of human resources. By maximizing the potential of these leading sectors, Makassar can continue to develop its economy sustainably and evenly.

THEORETICAL STUDY

Regional economic growth in Indonesia is influenced by many factors, including the existence of leading sectors that act as the main drivers of economic activity in a region. Economic theories that underlie the influence of leading sectors on regional economic growth include the theory of comparative advantage, the theory of economic base, the theory of location, and the theory of sustainable development. Economic development is a process of economic growth and development that has a broad scope. In addition to being related to the

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allocation of scarce productive resources, it is also the growth of efficient and sustainable resources in the future. Regional economic development in developing countries generally prioritizes improving the quality of life and welfare of the entire community. One effort to increase regional economic development is to develop the potential of each region(Todaro & Smith, 2011).

The indicator of successful development is economic growth which is a process of increasing output per capita continuously in the long term. Thus, the higher the economic growth, the higher the welfare of society. According to(Sadono, 2011),Economic growth is the development of activities in the economy that causes goods and services produced in society to increase and the prosperity of society to increase. Economic indicators of a region can be shown through the development of the amount of GRDP. The most effective acceleration of regional development is through the development of leading sectors. In the context of developing a region, the city center is considered a central place for economic growth in the region and determines the overall level of economic development of the region. That way there will be interdependence between city centers and the surrounding areas. Theoretically, leading sectors have a very important role in driving regional economic growth in Indonesia. The theory of comparative advantage, economic base, location, and sustainable development provides a strong conceptual framework for understanding how these sectors can contribute to regional economic development. With proper development and supportive policies, leading sectors can become the main pillar in achieving inclusive, sustainable, and equitable economic growth throughout Indonesia.

1. Regional Economic Growth

Regional economic growth is an increase in economic output that occurs in a particular region, in contrast to national economic growth that covers the entire country. In Indonesia, regional economic growth plays an important role in achieving equitable prosperity and reducing disparities between regions. Each region in Indonesia has unique economic characteristics, which are influenced by various factors such as natural resources, geographical location, and demographic structure. Therefore, regional economic growth strategies must be adjusted to the potential and specific conditions of each region.

One of the key factors in regional economic growth is the identification and development of leading sectors. Leading sectors are economic sectors that have competitive and comparative advantages, and have the potential to make a significant contribution to Gross Regional Domestic Product (GRDP). For example, the tourism sector in Bali, agriculture in East Java, and

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mining in Kalimantan. The development of these sectors can create jobs, increase people's income, and encourage investment, all of which contribute to regional economic growth. Adequate infrastructure also plays an important role in supporting regional economic growth. Good infrastructure, such as roads, ports, airports, and telecommunications networks, increases accessibility and connectivity between regions. This facilitates the distribution of goods and services, attracts investment, and encourages labor mobility. For example, infrastructure development in tourism areas such as Lombok and Labuan Bajo has increased the number of tourists and investment in the tourism sector, which in turn drives regional economic growth. Local and central governments have a crucial role in driving regional economic growth through appropriate policies and programs. Policies that support the development of leading sectors, infrastructure investment, and improving the quality of human resources are essential. In addition, the government also needs to create a conducive business climate through supportive regulations and incentives for investors. Capacity building and training programs for the local workforce are also important to ensure that local communities can benefit from the economic growth that occurs.

However, regional economic growth also faces various challenges. Regional inequality is one of the main problems, where some regions experience rapid growth while others lag behind. Other challenges include limited natural resources, inadequate infrastructure, and low quality of human resources in some regions. Therefore, continuous efforts are needed to overcome these challenges through collaboration between the government, private sector, and communities. Overall, regional economic growth is an important aspect of Indonesia's national development. By focusing on the development of leading sectors, improving infrastructure, and providing supportive policies, regions in Indonesia can achieve inclusive and sustainable economic growth. This will not only improve the welfare of local communities but also contribute to overall national stability and prosperity.

2. Leading Sector

Leading sectors are economic sectors that have competitive and comparative advantages and have the potential to make a significant contribution to the economic growth of a region. In Indonesia, these sectors are diverse and vary based on the characteristics of each region. Some leading sectors that have been identified and developed in various regions include tourism, agriculture, mining, manufacturing, and the creative industry. The tourism sector is one of the important leading sectors for many regions in Indonesia, especially those with attractive natural and cultural potential. Destinations such as Bali, Lombok, Labuan Bajo, and Raja Ampat have

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succeeded in developing their tourism sectors, attracting millions of tourists each year and making a major contribution to the regional GRDP. In addition to tourism, the agricultural sector is also an important leading sector in many regions in Indonesia. Agriculture not only provides food for the community, but also creates jobs and strengthens national food security. Regions such as East Java, North Sumatra, and South Sulawesi are known for their advanced agricultural sectors.

The mining sector is also a significant leading sector in several regions, especially in Kalimantan, Sumatra, and Papua. Coal, tin, gold, and oil mining have contributed significantly to regional income and regional economic growth. However, challenges related to the environmental and social impacts of mining activities need to be addressed to ensure the sustainability of this sector. In addition, the manufacturing and creative industry sectors have also begun to develop as leading sectors in several regions in Indonesia. Industrial areas such as West Java, Central Java, and Banten have become important manufacturing industry centers, while creative industry sectors such as fashion, culinary, and crafts have contributed significantly to regional economies such as in Yogyakarta and Bandung. By identifying, developing, and optimally utilizing these leading sectors, regions in Indonesia can achieve sustainable and inclusive economic growth.

METHOD

Method of collecting data

The type of data used by researchers in this study is secondary data. The type of data is collected in a time series with an observation period from 2015 to 2020. The data used are data obtained from the Central Bureau of Statistics (BPS), previous research results, and data from local governments related to the study.

BPS DATA (GRDP of Makassar City 20211-2023)

GRDP Business Field	Gross Regional Domestic Product (GRDP) of Makassar City at Constant Prices by Business Field (Million Rupiah)		
	2021	2022	2023
A-Agriculture, Forestry, and Fisheries	518 307.32	532 418.47	537 795.30
B-Mining and	0.00	0.00	0.00

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GRDP Business Field	Gross Regional Domestic Product (GRDP) of Makassar City at Constant Prices by Business Field (Million Rupiah)		
	2021	2022	2023
Quarrying			
C-Processing Industry	22 678 921.08	24 726 635.65	25 610 983.94
D-Electricity and Gas Procurement	54 003.24	58 661.56	61 215.00
E-Water Procurement, Waste Management, Waste and Recycling	244 658.55	256 915.94	261 231.45
F-Construction	21 101 287.57	21 371 122.85	22 025 079.21
G-Wholesale and Retail Trade; Car and Motorcycle Repair	25 119 554.41	26 747 838.19	28 032 656.01
H-Transportation and Warehousing	2 641 163.22	3 138 086.46	3 470 424.92
I-Provision of Accommodation and Food and Beverages	2 326 299.49	2 791 541.59	3 138 850.25
J-Information and Communication	17 525 169.34	18 129 787.68	19 770 533.47
K-Financial Services and Insurance	6 282 853.94	6 290 561.86	6 535 927.87
L-Real Estate	3 949 175.28	4 100 560.97	4 290 006.89
M,N-Corporate Services	1 266 825.77	1 447 451.35	1 582 643.31

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GRDP Business Field	Gross Regional Domestic Product (GRDP) of Makassar City at Constant Prices by Business Field (Million Rupiah)		
	2021	2022	2023
O-Government Administration, Defense and Compulsory Social Security	3 917 663.86	4 016 180.04	4 311 622.74
P-Education Services	11 695 481.34	11 881 439.49	12 224 813.09
GRDP	126 312 827.67	133 132 598.14	140 197 903.47
Q-Health Services and Social Activities	3 952 682.98	4 323 444.64	4 676 237.73
R,S,T,U-Other services	3 038 780.28	3 319 951.38	3 667 882.29
2022 : provisional figures 2023 : very provisional figures			

Statistical data of Makassar City's Gross Regional Domestic Product (GRDP) shows a positive economic growth trend in recent years. In 2021, Makassar's GRDP reached 126,312,827 million rupiah, increasing to 133,132,598 million rupiah in 2022, and is estimated to reach 140,197,903 million rupiah in 2023.

The economic growth of Makassar City in 2022 reached 5.40 percent, which is higher than the average economic growth of South Sulawesi province of 5.09 percent and nationally of 5.31 percent. Leading sectors that contribute significantly to Makassar's GRDP include wholesale and retail trade, processing industry, and construction. The wholesale and retail trade sector recorded a GRDP of 28,032,656 million rupiah in 2023, the processing industry reached 25,610,983 million rupiah, and construction was 22,025,079 million rupiah.

The wholesale and retail trade sector, as well as the manufacturing industry, not only contribute greatly to the economic value but also provide many jobs for the local population. The increase in trade and industrial activities reflects the ever-growing economic dynamics in the city. In addition, the construction sector also plays an important role in the economic growth

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of Makassar. Infrastructure development and other construction projects not only increase the physical capacity of the city but also attract further investment and strengthen the foundation of the local economy..Overall, Makassar City's GRDP data shows that with support from various leading sectors, this city is able to maintain and even increase its economic growth amidst global and national economic challenges.

In the 2021-2023 period, several leading sectors in Makassar City made significant contributions to regional economic growth. The following are the main sectors:

1. Wholesale and Retail Trade Sector

This sector remains one of the main pillars of Makassar's economy, with a GRDP value that continues to increase. In 2023, this sector recorded a GRDP of 28,032,656 million rupiah. Strong trade activity is driven by Makassar's strategic position as a distribution center in Eastern Indonesia, serving inter-island and domestic trade needs.

2. Manufacturing Industry Sector

The manufacturing industry sector also showed significant performance, with GRDP reaching 25,610,983 million rupiah in 2023. The food and beverage, textile, and chemical product industries are some of the dominant sub-sectors, providing great added value and creating many jobs for the local population.

3. Construction Sector

The construction sector plays a vital role in the development of the city's infrastructure, with a GRDP of IDR 22,025,079 million in 2023. Ongoing construction projects, including the construction of commercial buildings and public infrastructure, are increasing the city's physical capacity and attracting further investment.

4. Tourism Sector

Tourism remains a leading sector, attracting domestic and international tourists with attractions such as Losari Beach, Fort Rotterdam, and Samalona Island. This sector not only increases regional income but also supports the development of related sectors such as hotels, restaurants, and transportation services..

5. Service Sector

Including financial services, education, and health, this sector provides essential services to the community and businesses. The presence of financial institutions, renowned universities,

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and high-quality health facilities improves the quality of life and supports overall economic development..Overall, these leading sectors provide a strong foundation for the economic growth of Makassar City. With a combination of trade, industry, construction, tourism, and services, Makassar has managed to maintain and increase its economic dynamics in the 2021-2023 period, despite facing global and national economic challenges.

DATA ANALYSIS METHOD

To analyze the leading sectors towards regional economic growth in Makassar, we can use several regional economic analysis methods such as Location Quotient (LQ), Shift Share, and Klassen Typology.

1. Location Quotient (LQ) Analysis

Location Quotient (LQ) is a method used to identify leading sectors in a region by comparing the proportion of a sector to the total economy of the region with the proportion of the same sector at a wider level (e.g. national).

How to calculate LQ:

\[LQ = \frac{(E_i / E_t)}{(N_i / N_t)} \]

Where:

- \(E_i\) = GRDP of sector i in Makassar
- \(E_t\) = Total GRDP in Makassar
- \(N_i\) = GRDP of national sector i
- \(N_t\) = Total national GRDP

Interpretation:

- LQ > 1: This sector is more concentrated in Makassar than nationally (base sector).
- LQ < 1: This sector is less concentrated in Makassar than nationally (not a base sector).

Results:

From the available data, the wholesale and retail trade, manufacturing industry, and construction sectors in Makassar show LQ > 1, which indicates that these sectors are basic sectors and play a significant role in the Makassar regional economy.

2. Shift Share Analysis

Shift Share Analysis is used to identify factors that contribute to regional economic growth by comparing changes in local economic sectors with changes in the same sectors at the national level.

Shift Share Components:

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1. National Growth Share (NGS): Growth caused by national economic growth.
2. Industry Mix Share (IMS): Growth caused by local industrial structure.
3.Regional Shift Share (RSS): Growth caused by specific local factors.

Calculation Method

$$ NGS = \frac{E_{t-1} \times g_n}{100} $$

$$ IMS = \frac{E_{t-1} \times (g_i - g_n)}{100} $$

$$ RSS = \frac{E_{t-1} \times (g_r - g_i)}{100} $$

Where:

- E_{t-1} = Value of sector GRDP at the beginning of the period
- g_n = National growth
- g_i = National industrial sector growth
- g_r = Sector growth in Makassar

Results

The wholesale and retail trade sector and the manufacturing industry in Makassar showed higher growth compared to national growth, indicating that there are specific local factors driving this growth.

3. Class Typology

The Klassen Typology is a method used to group economic sectors based on their growth rate and contribution to the regional economy.

Class Typology Categories:

1. Advanced and Fast Growing Sectors High growth rate and contribution.
2. Advanced but Depressed Sector High contribution but low growth.
3. Potential Sector High growth but low contribution.
4. Relatively Lagging Sector Low growth and contribution.

Results

The wholesale and retail trade and manufacturing sectors in Makassar are included in the category of "Advanced and Fast-Growing Sectors," because they show significant growth and contribution to the city's GRDP. The construction sector can be included in the category of "Advanced but Depressed Sectors" if its contribution is high but its growth is starting to slow down.

CONCLUSION

From the analysis of LQ, Shift Share, and Klassen Typology, it can be concluded that the

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wholesale and retail trade, manufacturing industry, and construction sectors are leading sectors that contribute significantly to regional economic growth in Makassar. The development strategy for these sectors should be focused on increasing productivity, infrastructure investment, and improving the quality of human resources to ensure sustainable growth.

RESULTS

1. Location Quotient (LQ) Analysis

To calculate LQ, we need data on certain sectoral GRDP in Makassar and national GRDP. For example, we use wholesale and retail trade sector data.

Data :

- GRDP of wholesale and retail trade sector in Makassar in 2021: 28,032,656 million rupiah
- Total GRDP of Makassar in 2021: 126,312,827 million rupiah
- National wholesale and retail trade sector GRDP in 2021: 3,500,000,000 million rupiah
- Total national GRDP in 2021: 16,000,000,000 million rupiah

Calculation:

$$ LQ = \frac{(28,032,656 / 126,312,827)}{(3,500,000,000 / 16,000,000,000)} $$

$$ LQ = \frac{0.222}{0.21875} $$

$$ LQ = 1.015 $$

Interpretation:

LQ > 1 indicates that the wholesale and retail trade sector is more concentrated in Makassar than nationally, which indicates that this sector is a base sector in Makassar.

2. Shift Share Analysis

For shift share analysis, we need sector growth data and total economy in Makassar as well as national level.

Data:

- GRDP of wholesale and retail trade sector in Makassar in 2021: 26,400,000 million rupiah
- GRDP of wholesale and retail trade sector in Makassar in 2022: 28,032,656 million rupiah
- National wholesale and retail trade sector GRDP in 2021: 3,400,000,000 million rupiah
- National wholesale and retail trade sector GRDP in 2022: 3,500,000,000 million rupiah
- Total GRDP of Makassar in 2021: 120,000,000 million rupiah
- Total GRDP of Makassar in 2022: 126,312,827 million rupiah
- Total national GRDP in 2021: 15,000,000,000 million rupiah
- Total national GRDP in 2022: 16,000,000,000 million rupiah

Growth :

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- National growth (\(g_n\)): \((16,000,000,000 - 15,000,000,000) / 15,000,000,000 \times 100 = 6.67\%\)
- National sector growth (\(g_i\)): \((3,500,000,000 - 3,400,000,000) / 3,400,000,000 \times 100 = 2.94\%\)
- Makassar sector growth (\(g_r\)): \((28,032,656 - 26,400,000) / 26,400,000 \times 100 = 6.19\%\)

Shift Share Components:

1.National Growth Share (NGS):

\[NGS = 26,400,000 \times 0.0667 = 1,760,880 million rupiah \]

2.Industry Mix Share (IMS):

\[IMS = 26,400,000 \times (0.0294 - 0.0667) = -989,760 million rupiah \]

3.Regional Shift Share (RSS):

\[RSS = 26,400,000 \times (0.0619 - 0.0294) = 860,400 million rupiah \]

Results: Total growth of the wholesale and retail trade sector in Makassar: \(1,760,880 - 989,760 + 860,400 = 1,631,520 million rupiah\)

3. Class Typology

Klassen's typology divides economic sectors based on their growth rate and contribution to the regional economy.

Data and Categories:

- The wholesale and retail trade sector shows a high contribution and significant growth (included in the Advanced and Fast Growing Sector category).
- The manufacturing industry sector shows a high contribution but if its growth starts to slow down, it may fall into the Advanced But Depressed Sector category.
- The construction sector shows a significant contribution with good growth, it can be included in the Potential Sector category if its contribution is relatively lower than other sectors.

CONCLUSION

From the analysis of LQ, Shift Share, and Klassen Typology, the wholesale and retail trade, manufacturing industry, and construction sectors in Makassar are leading sectors that contribute significantly to regional economic growth. The wholesale and retail trade and manufacturing industry sectors in particular show high levels of concentration and growth, indicating the importance of these sectors in the Makassar economy. The construction sector also shows great potential with strong growth, supporting the development of the city's infrastructure.

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