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Urbanization, Informal Economy, and Spatial Inequality in Indonesian Cities: A Secondary Data-Based Analysis

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Abstract

Urbanization in Indonesia has become a major driver of spatial transformation, economic restructuring, and social change. While urban growth creates opportunities for productivity, employment, and service concentration, it also intensifies spatial inequality, informal employment, housing pressure, and environmental vulnerability. This study revises the discussion of urbanization and city growth by using a secondary data-based qualitative analysis supported by recent demographic, urban, and development sources. Data were drawn from Statistics Indonesia, the World Bank, the United Nations Department of Economic and Social Affairs, UN-Habitat, and selected academic literature on urbanization, agglomeration, rural-urban migration, and the informal economy. The analysis shows that Indonesian urbanization should be understood not merely as rural-to-urban migration, but as a structural transformation shaped by uneven regional development, metropolitan concentration, labor-market segmentation, and land consumption dynamics. The informal sector functions as both a livelihood absorber and a symptom of incomplete urban economic transformation. The study argues that a more inclusive urban policy requires stronger rural development, integrated metropolitan governance, formal-informal sector linkage, affordable housing provision, and spatial planning that protects ecological buffer zones.

Keyword: Urbanization, Informal Economy, Spatial Inequality, City Growth, Indonesia.

INTRODUCTION

Urbanization is one of the most important transformations in developing countries. In Indonesia, urbanization is not only a demographic movement from rural areas to cities; it is also a process of economic restructuring, spatial expansion, and social reorganization. Large cities attract population because they concentrate employment opportunities, education, health

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services, transportation, information networks, and entertainment facilities. At the same time, rural areas often experience limited employment opportunities, declining agricultural productivity, inadequate infrastructure, and weaker access to public services. These push and pull factors create sustained rural-urban migration.

The earlier discussion of urbanization in Indonesia correctly emphasized that urban migration produces both positive and negative effects. Cities can increase productivity through agglomeration economies, wider labor markets, and better access to services. However, uncontrolled urbanization can also produce slum settlements, congestion, informal employment, spatial inequality, environmental degradation, and pressure on urban infrastructure. These issues remain relevant, but they require updated analysis because Indonesia's urban transition has continued rapidly in the last two decades.

Recent data confirm that Indonesia is increasingly urban. The World Bank reports that the share of Indonesia's population living in urban areas reached about 59.2 percent in 2024, indicating that urban issues are no longer marginal but central to national development policy (World Bank, 2025). BPS-Statistics Indonesia has also emphasized the need to examine urbanization through demographic and geospatial perspectives, particularly in relation to metropolitan areas, land consumption, internal migration, and sustainable development planning (BPS, 2024, 2025).

Despite its importance, urbanization is often discussed in a fragmented way. Some analyses focus on migration, while others emphasize city growth, informal employment, poverty, or land use. This article integrates these perspectives by linking urbanization, the informal economy, and spatial inequality. The central argument is that urbanization in Indonesia cannot be managed only through city-based policies. It must be connected to regional development, rural transformation, labor-market reform, housing policy, and metropolitan governance.

This study addresses three research questions. First, how does urbanization shape city growth and spatial inequality in Indonesia? Second, how does the informal economy function within the urbanization process? Third, what policy strategies are needed to make urbanization more inclusive, productive, and sustainable?

LITERATURE REVIEW

Urbanization can be understood through two related meanings. First, it refers to the movement of people from rural to urban areas. Second, it refers to the transformation of rural spaces into urban spaces through changes in land use, employment structure, infrastructure, and lifestyle. These two meanings are closely connected because demographic concentration often

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stimulates urban land conversion, while new infrastructure and market activities transform surrounding rural areas into peri-urban zones.

Urban economic theory explains that cities grow because they offer agglomeration advantages. Firms benefit from proximity to suppliers, labor, consumers, infrastructure, finance, and knowledge networks. Workers benefit from better access to jobs, public services, and social mobility. However, agglomeration also creates congestion costs, including traffic, pollution, housing shortages, land speculation, and environmental pressure. Therefore, city growth generates both productivity benefits and social-spatial risks.

The informal economy is closely linked to urbanization in developing countries. The International Labour Organization defines informality as economic activity by workers or units that are, in law or in practice, insufficiently covered by formal arrangements (ILO, 2023). In cities, the informal sector absorbs migrants who cannot enter formal employment due to limited education, skills, capital, networks, or legal access. Street vending, domestic work, small-scale trading, informal transportation, food selling, and recycling are examples of urban livelihoods that sustain low-income populations.

Spatial inequality emerges when urban development is concentrated in specific regions, especially metropolitan cores, while rural and peripheral areas lag behind. Indonesia's urbanization is strongly shaped by uneven development between Java and non-Java regions, between metropolitan and non-metropolitan areas, and between formal and informal urban spaces. This pattern makes urbanization not only a demographic issue but also a question of justice, access, and governance.

METHOD

This study uses a secondary data-based qualitative analysis. The method is appropriate because the objective is to reinterpret urbanization and city growth in Indonesia by integrating statistical evidence, policy reports, and academic literature. The analysis does not claim to estimate causal effects statistically; rather, it synthesizes major trends and policy implications from available secondary sources.

The data sources include BPS-Statistics Indonesia publications on demographic statistics and urban land consumption, World Bank data on urban population, the United Nations World Urbanization Prospects, UN-Habitat reports on urban development and climate action, and selected literature on urban economics, migration, informal economy, and regional inequality. The analytical focus covers four dimensions: urban population growth, rural-urban migration, informal sector expansion, and spatial development challenges.

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The analysis was conducted in three stages. First, the article identified key urbanization issues in the original manuscript, including migration, informal employment, slums, urban poverty, land pressure, and regional inequality. Second, these issues were reorganized using current urban studies concepts such as agglomeration, spatial inequality, informality, and metropolitan governance. Third, the revised discussion was linked to policy implications for inclusive and sustainable urban development in Indonesia.

Table 1. Data Sources and Analytical Focus

Source	Main information used	Analytical relevance
BPS-Statistics Indonesia (2024, 2025)	Urbanization, internal migration, land consumption, demographic trends, and metropolitan perspectives	Provides national statistical and geospatial basis for understanding urban transformation
World Bank (2019, 2025)	Urban potential, infrastructure, services, urban population share, and policy framework	Explains the relationship between urbanization, productivity, inclusiveness, and livability
UN DESA (2025)	Global and national urban-rural population estimates and projections	Places Indonesia's urbanization within international demographic trends
UN-Habitat (2024)	Urban climate risks, informal settlements, vulnerable groups, and urban governance	Connects urban growth with sustainability and climate-sensitive planning
Academic literature	Agglomeration, migration, informal economy, spatial inequality, and urban poverty	Strengthens theoretical interpretation and policy discussion

RESULTS AND DISCUSSION

1. Urbanization as Structural Transformation

Urbanization in Indonesia should be interpreted as structural transformation rather than a simple movement of population. Rural residents migrate to cities because urban areas offer employment, education, health services, transport networks, and broader social opportunities. However, migration is also driven by rural pressures such as limited land, low agricultural

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productivity, and unequal infrastructure distribution. Therefore, the problem of urbanization cannot be solved only by restricting migration; it must be addressed through balanced regional development.

The continued increase in the urban population indicates that cities will remain central to Indonesia's development trajectory. Urbanization can generate productivity through concentration of labor, capital, and knowledge. Nevertheless, productivity gains are not automatic. When urban population growth is faster than the capacity of cities to provide housing, transport, sanitation, education, and employment, urbanization may produce congestion rather than prosperity.

2. City Growth, Agglomeration, and Spatial Inequality

City growth is closely linked to agglomeration economies. Firms and workers are attracted to urban areas because cities provide markets, infrastructure, skilled labor, financial services, and knowledge spillovers. These factors explain why trade, services, industry, education, and government functions tend to concentrate in cities. However, when agglomeration is not supported by adequate planning, it can intensify urban problems such as land conversion, traffic congestion, pollution, settlement expansion, and rising living costs.

Spatial inequality is one of the most significant consequences of uneven urban growth. In Indonesia, urban development is often concentrated in metropolitan areas, particularly in Java and major provincial capitals. This concentration creates a development gap between core cities, peri-urban areas, small towns, and rural regions. The result is a circular process: cities attract people because they have better facilities, while rural areas remain less attractive because they receive less investment. Breaking this cycle requires policies that connect urban and rural economies rather than treating them as separate systems.

3. Informal Economy as Livelihood Absorber and Structural Symptom

The urban informal economy performs a dual role. On one side, it acts as a livelihood absorber for migrants and low-income workers who cannot enter the formal sector. Informal work provides immediate income and flexibility. It supports the daily economy of cities through food vending, small trade, transport services, domestic work, and other low-cost services. In many cases, the formal sector indirectly benefits from the informal sector because informal services reduce the cost of labor reproduction for formal workers.

On the other side, the expansion of the informal economy also reflects structural weaknesses in urban labor markets. Many migrants work informally not because they prefer informality, but because they lack education, capital, certification, business permits, or access to formal employment. Therefore, the informal sector should not be treated only as a problem of

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disorder. It should be understood as a survival mechanism created by unequal development and incomplete labor-market transformation. Policy should focus on upgrading, protecting, and linking informal activities with formal economic systems.

4. Housing Pressure, Slums, and Land Consumption

Rapid urbanization increases demand for housing and urban land. When affordable housing supply is limited, low-income residents often occupy marginal land, riverbanks, coastal areas, railway corridors, or other ecologically vulnerable spaces. This produces slum settlements and increases the risk of flooding, sanitation problems, health issues, and social exclusion. The earlier manuscript correctly identified that buffer areas such as watersheds become settlement targets. This point remains highly relevant, but it needs to be linked more explicitly to land governance, housing affordability, and ecological protection.

BPS-Statistics Indonesia (2024) highlights the importance of integrating statistical and geospatial data to examine urbanization, metropolitan areas, land consumption, and land-use efficiency. This direction is important because urbanization is not only about people moving to cities but also about how land is consumed, converted, and governed. Sustainable urban policy requires controlling urban sprawl, improving land-use efficiency, protecting ecological buffer zones, and ensuring access to affordable housing.

5. Policy Implications for Inclusive Urban Development

The policy implication of this analysis is that urbanization must be managed through an integrated development strategy. First, rural development should be strengthened through agricultural modernization, rural infrastructure, digital connectivity, and non-farm employment. This would reduce distress-driven migration while allowing mobility to become a choice rather than a necessity. Second, small and medium cities should be strengthened as alternative growth centers to reduce excessive concentration in major metropolitan areas.

Third, urban informal workers should receive better access to training, credit, legal recognition, market space, social protection, and digital platforms. Fourth, metropolitan governance should coordinate housing, transport, land use, sanitation, and environmental protection across administrative boundaries. Fifth, urban planning must be aligned with climate adaptation because urban poverty, informal settlements, and environmental risk are increasingly interconnected.

Table 2. Strategic Policy Directions

Urban issue	Main challenge	Recommended policy direction
Rural-urban migration	Migration is driven by unequal access to jobs and services	Strengthen rural infrastructure, regional entrepreneurship, and

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		small-city development
Informal economy	Informal workers lack protection, capital, and legal recognition	Upgrade informal enterprises through training, microfinance, permits, and social protection
Housing pressure	Low-income groups face limited access to affordable housing	Expand affordable housing and improve settlement upgrading programs
Land consumption	Urban expansion threatens ecological buffer areas	Integrate spatial planning with geospatial monitoring and environmental protection
Metropolitan inequality	Urban services and employment are concentrated in core cities	Develop integrated metropolitan governance and inter-regional connectivity

CONCLUSION

This study concludes that urbanization and city growth in Indonesia are part of a broader structural transformation involving migration, agglomeration, labor-market segmentation, land consumption, and spatial inequality. Urbanization generates opportunities for productivity and social mobility, but it also creates pressure on housing, infrastructure, employment, ecological buffers, and urban governance.

The informal sector is central to understanding Indonesian urbanization. It functions as a livelihood absorber for migrants and low-income urban residents, but it also reflects the inability of the formal economy to absorb labor inclusively. Therefore, policy should move beyond the formal-informal dichotomy and create linkages that improve productivity, protection, and recognition for informal workers.

The main contribution of this article is the integration of urbanization, informal economy, and spatial inequality into one analytical framework. Sustainable urban development in Indonesia requires balanced regional development, stronger small and medium cities, inclusive metropolitan governance, affordable housing, and geospatially informed land-use planning. Future research should use longitudinal datasets and city-level comparisons to examine how urbanization affects employment, housing, poverty, and environmental risk across different Indonesian metropolitan regions.

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