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## High Economic Growth: Will Ensuring Inclusive Growth?

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### Abstract

Inclusive growth (IG) measures the benefits of economic growth for people's welfare. Several approaches have been developed in measuring inclusive growth. This study aims to measure inclusive growth using the poverty approach (IGp). This research was conducted in Jambi province and Kepulauan Riau province which is the region with the highest average economic growth on the island of Sumatera in the period 2001-2016. The method of approach used in this study is descriptive analysis. The technique of collecting data uses library research. Poverty-Equivalent Growth Rate (PEGR) was developed in the measurement of inclusive growth. The results of the study show that high economic growth does not guarantee the achievement of inclusive growth. This phenomenon is indicated by the average incremental growth coefficient (IGp) of Jambi province of 0.038 lower than the average coefficient of economic growth ( $\hat{G}g$ ) of 0.060. The same condition occurs in the province of Riau Islands, the average inclusive growth coefficient (IGp) is 0.020 lower than the average coefficient of economic growth ( $\hat{G}g$ ) of 0.062. This indicates that high economic growth has not been distributed evenly and the benefits of face economic growth are accepted by non-poor people. Some government policies and programs are expected to be directed towards efforts to reduce poverty, so that the benefits of economic growth are truly accepted by the poor.

*Keywords: Economic Growth, Inclusive Growth, Poverty-Equivalent Growth Rate (PEGR).*

### 1. Introduction

The concept of inclusive growth (IG) was present and developed in the past decade. The characteristic of the concept of inclusive growth is the active participation and contribution of the community in the development process (Goyal, 2015; Kazi, 2015; Khokhar & Singh, 2016; Soleh, 2019). In addition, inclusive growth creates economic opportunities for all segments of the population and ensures equal access to them (Bakshi, 2015; Chetia, 2015; Prasanna, 2016). Several approaches have been developed in measuring an inclusive growth. Among them is the measurement of inclusive growth using the poverty approach. Habito (2009) of the Asian Development Bank (ADB) defines inclusive growth as GDP growth that can reduce poverty. Various studies have also been developed in various countries in measuring inclusive growth using the poverty approach (Akwu & Kanu, 2014; Alao, 2015; Dash, 2015).

The strategy for inclusive growth in Indonesia is contained in the National Medium-Term Development Plan for 2015-2019 in an effort to accelerate corruption and justice (BAPPENAS, 2014). Indonesia consists of 34 provinces located on five major islands, namely Sumatera, Java, Kalimantan, Sulawesi, Papua and four islands namely Riau Islands, Bangka Belitung Islands, Nusa Tenggara Islands and Maluku Islands. Sumatera Island based on area is the sixth largest island in the world and is one of the largest islands in Indonesia with an

area of around 473,481 km<sup>2</sup> located in the western part of the archipelago. Sumatera consists of ten provinces namely Aceh, Sumatera Utara, Sumatera Barat, Jambi, Riau, Sumatera Selatan, Lampung, Bengkulu, Kepulauan Bangka Belitung and Kepulauan Riau. Sumatera has the second largest population in Indonesia after the island of Java. The period of 2001-2016, the average population of Sumatera reached 49,630,448 people (BPS, 2002-2017).

## 2. Literature Review

Economic activities that are quite rapid on this island are supported by the abundant natural resource potential of the region and its very strategic location. The average economic growth of the island of Sumatera in 2001-2016 was 5.00% per year. This value is below the average of Indonesia's economic growth of 5.31% per year. The provincial economic performance contributed to the achievement of overall economic growth on the island of Sumatera. Jambi Province and Kepulauan Riau Province are two regions with the highest average economic growth on the island of Sumatera. The average economic growth of Jambi province is 6.23% per year while Kepulauan Riau province is 6.43% per year and is the region with the highest average economic growth on the island of Sumatera.

High and sustainable economic growth is a necessity to ensure the continuity of economic development and improvement of community welfare (Tambunan, 2016). But in fact, high economic growth still raises various problems in several developing countries including the problem of poverty (Pal, 2014; Szeles, 2014). An inclusive growth study using the poverty approach in regions with high economic growth is still difficult to find. For this reason, measurement of inclusive growth in Jambi province and Kepulauan Riau province as an area with high economic growth rates and having poverty problems needs to be done. Will high economic growth guarantee inclusive growth? This study aims to measure and analyze inclusive growth using the poverty approach in regions with high economic growth.

## 3. Methods

We developed the Poverty-Equivalent Growth Rate (PEGR) in measuring the inclusive growth coefficient of the provinces of Jambi and Riau Islands which are the provinces on the island of Sumatra with the highest economic growth. Using the poverty approach, inclusive growth is economic growth that can reduce poverty. Describe  $i$  from the PEGR equation (Klasen, 2010) as poverty ( $p$ ). Next define poverty ( $p$ ) as a function of the number of poor people ( $z$ ) and the average income of the population ( $\kappa$ ). So we get the inclusive growth coefficient formula:

$$IGp = (Epg / Ep) \hat{G}g$$

Note:

IGp : coefficient of inclusive growth in reducing poverty  
Ep : poverty elasticity of average income  
Epg : poverty elasticity towards economic growth  
 $\hat{G}g$  : economic growth

Economic growth is declared inclusive if the IGp value >  $\hat{G}g$  (Azwar, 2016; Klasen, 2010; Soleh et al. 2019).

## 4. Results and Discussion

This research measures and analyzes the inclusive growth of Jambi province and Kepulauan Riau province which is the region with the highest average economic growth on the island of Sumatera using a poverty approach (IG<sub>p</sub>).

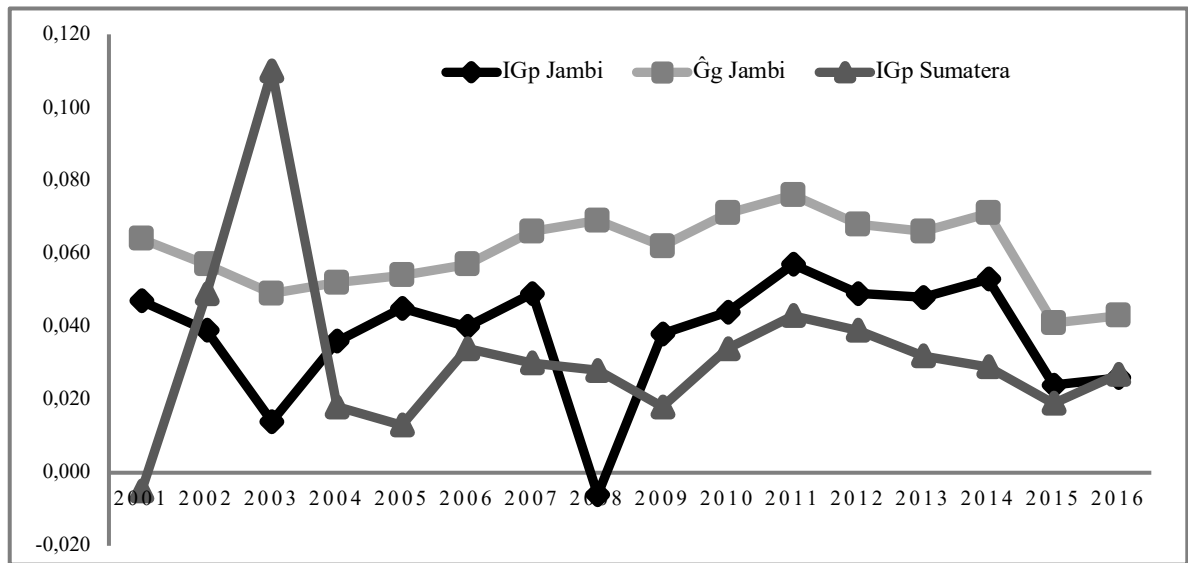
### **Inclusive Growth (IG<sub>p</sub>) of the Jambi Province**

Jambi Province is geographically located between 00 45 'to 20 45' south latitude and between 1010 10 'to 1040 55' east longitude. The north is bordered by Riau Province and Kepulauan Riau Province, East of the South China Sea, south of Sumatera Selatan Province and west of Sumatera Barat and Bengkulu Provinces. The total area of Jambi Province is 53,435 Km<sup>2</sup> with a land area of 50,160.05 Km<sup>2</sup> and a total area of 3.274,95 Km<sup>2</sup>. The largest area in Jambi Province is in Merangin Regency, amounting to 7,679 Km<sup>2</sup> or 15.31 percent of the total area of Jambi Province, followed by Tebo and Sarolangun Districts each amounting to 6,461 Km<sup>2</sup> and 6,184 Km<sup>2</sup> (BPS, 2018). The economic structure of Jambi until 2016 according to the business field is supported by three main business fields, namely the agricultural, forestry and fisheries, the mining and quarrying and the manufacturing. The economic growth of Jambi province in the 2001-2016 period fluctuated but had a tendency to increase. The average economic growth is 6.23% per year. This value is higher than the average economic growth of Sumatera (5.00% per year) and Indonesia (5.31% per year).

The highest economic growth in 2011 reached 7.86%. In that year all businesses experienced positive growth. Even in 2011, Jambi was the province that had the highest economic growth compared to other provinces on the island of Sumatera. The mining and quarrying sector experienced the highest growth reaching 23,10% from the previous year. While the agriculture, forestry and fisheries sector, which is the sector that absorbs the most labor, experienced growth of 6.03% from the previous year. The decline in Jambi's economic growth has occurred since 2012. The mining and quarrying sector, which previously had high growth, is now experiencing the lowest growth of only 2.62%. Furthermore, the lowest economic growth during the study period occurred in 2015 which was 4,20%. However, this value is still higher than Sumatera's economic growth of 3.53%. In that year, most provinces on the island of Sumatera also experienced a decline in growth.

Using the poverty approach, inclusive growth in Jambi province is defined as economic growth that can reduce poverty or have an impact on improving the welfare of the poor. The economic growth achievements of Jambi province are thought to have contributed to the decline in the poverty trend during the period 2001-2016. The average percentage of poor people is relatively lower when compared to other provinces in Sumatera, which is 10.17%. Jambi Province has the lowest average percentage of the poor population after the provinces of Sumatera Barat, Kepulauan Riau and the Kepulauan Bangka Belitung. This value is also lower than the average value of the percentage of poor people in Sumatera and Indonesia. The increase in poverty also occurred from 2011-2015. However, the decline in poverty again occurred in 2016.

Figure 1 shows the economic growth coefficient ( $\hat{G}_g$ ) of Jambi province as well as the inclusive growth coefficient (IG<sub>p</sub>) of Jambi province and Sumatera island. During the period of 2001-2016, the economic growth of Jambi province was not inclusive in reducing poverty. This is indicated by the economic growth coefficient curve ( $\hat{G}_g$ ) generally above the Jambi growth inclusiveness coefficient (IG<sub>p</sub>) curve. The average inclusive growth coefficient (IG<sub>p</sub>) value is 0,038 lower than the average economic growth coefficient ( $\hat{G}_g$ ) of 0.060. Although on average it shows that the economic growth of Jambi province is not inclusive of poverty, but the entire coefficient of inclusive growth is positive. The inclusiveness coefficient is positive but smaller than the coefficient of economic growth means that the reduction in poverty continues to occur along with increasing economic growth. Figure 1 shows a comparison of the inclusive growth coefficient (IG<sub>p</sub>) of Jambi province and Sumatera island. It can be explained that the graph of the coefficient of inclusive growth in Jambi province is largely above the graph of the coefficient of inclusive growth in Sumatera. Thus, on average it is known that the coefficient of inclusive growth in Jambi province (0.038) is greater than the average coefficient of inclusive growth in Sumatera (0.032).



**Figure 1. Economic Growth ( $\hat{G}_g$ ) and the Inclusive Growth Coefficient ( $IG_p$ ) of Jambi Province and Sumatera Island in 2001-2016.**

*Source: Researcher data (2019).*

In reducing poverty, the Jambi provincial government implemented several strategies (1) Provided scholarship assistance, education and training funds for the poor to develop education, skills and mastery of technology, the education funded is education that is ready to use resources in their respective regions-one; (2) Provide costs or capital for the poor to create businesses to process the resources they have; (3) Providing business assistance to the poor, so that the business carried out by the community is directed and has business value or is innovative; (4) Providing and improving the quality of transportation infrastructure both land and sea, making it easier for the poor to sell their products outside the region; (5) Providing the right places of business and markets for the poor so that they can work and sell the results of their business directly; and (6) Establishing cooperative relations between the capital owners and distributors, so that the production of the community remains in demand or there are buyers and directly the poor are bound by their efforts to fulfill their cooperation agreements.

### **Inclusive Growth ( $IG_p$ ) of the Kepulauan Riau Province**

Kepulauan Riau Province was formed based on Law Number 25 of 2002 dated September 2, 2002. It was approved and followed up by the Government of the Republic of Indonesia with the issuance of a government decree (Kepres) on July 1, 2004 as the 32nd new province. Astronomically, the Kepulauan Riau Province is located between 00 ° 29 'South Latitude and 04 ° 40' North Latitude and between 103 ° 22 'East Longitude to 109 ° 4' East Longitude. Kepulauan Riau Province consists of 1,796 islands. Based on its geographical position, as one of the provinces directly adjacent to several ASEAN countries, Kepulauan Riau Province has a very strategic position. In addition, the Kepulauan Riau Province is also directly adjacent to several other provinces in Indonesia. The boundaries of the region include: Northern Boundaries: Vietnam and Cambodia, Southern Boundaries: Sumatera Selatan and Jambi, Western Boundaries: Singapore, Malaysia, and Riau Province, Eastern Boundaries: Malaysia and Kalimantan Barat.

Kepulauan Riau consists of 7 districts/cities, namely: Karimun, Bintan, Natuna, Lingga, Anambas Islands, Batam, and Tanjung Pinang. The population of Kepulauan Riau until 2016 amounted to 859,813 people. Most of the population works in the large trade, retail, restaurant and hotel sectors, which is 26.22%. The economic structure of Kepulauan Riau is dominated by the manufacturing sector. The processing industry contributes the highest in the economy. In 2016, the contribution of this sector to Gross Regional Domestic Bruto reached 37.33%. The manufacture of fabricated metal product, computer, optical product and electrical

equipment industries contributed 19.96% to the manufacturing sector in the Kepulauan Riau province. The sectors that also contributed high were mining and quarrying which amounted to 15.28%. Oil and gas mining contributed 13.50% to the sector.

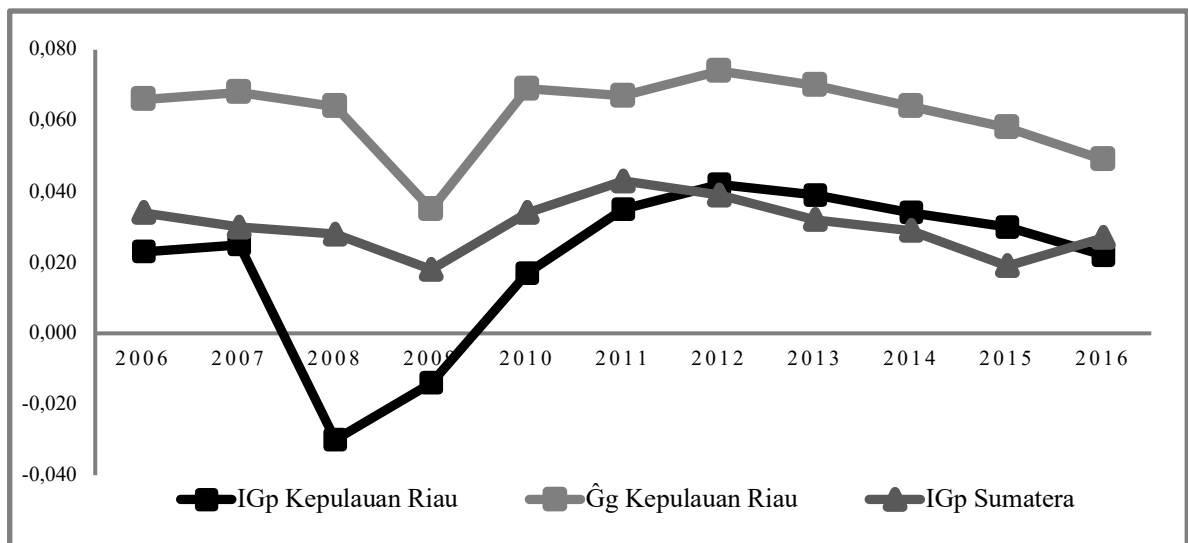
The economic growth of Kepulauan Riau in the 2004-2006 period fluctuated with an average growth of 6.43% per year. The trend of increasing growth occurred in 2004-2007 with an average growth of 6.71% per year. In 2008, economic growth declined by 0.38% from the previous year or from 7.01% to 6.63%. The economic slowdown continued until 2009. Even in that year the lowest economic growth was 3.52%. This condition is inseparable from the impact of the global financial crisis. There was a decline in the prices of major commodity exports. Not only Kepulauan Riau province, in 2009 all provinces on the island of Sumatra even experienced a decline in national economic growth.

Amid the imbalance in the global economic recovery, the performance of the domestic economy during 2010 continued to improve. This is reflected in the GRDP growth of provinces in Sumatera and provinces on other islands in Indonesia. Kepulauan Riau has very high growth to reach 7.20%. The slowdown in economic growth again occurred from 2013-2016. The trend of economic growth tends to decline with an average growth of 6.21% per year. Decreasing growth in the manufacturing sector from 8.13% in 2013 continued to decline until 2016 by 3.36% affecting the slowdown in the Kepulauan Riau economy.

The economic performance of the Kepulauan Riau as indicated by high economic growth, is thought to have had a positive influence on reducing poverty. The poverty trend from 2005-2016 tends to decline. However, poverty remains a problem in the Kepulauan Riau. The average percentage of the poor is 8.34% higher than the Kepulauan Bangka Belitung province of 7.37%. Using a poverty approach, the inclusive growth of the Kepulauan Riau province is defined as economic growth that can reduce poverty or have an impact on improving the welfare of the poor.

Figure 2 shows the coefficient of economic growth ( $\hat{G}_g$ ) in Kepulauan Riau province as well as the inclusive growth coefficient ( $IG_p$ ) of Kepulauan Riau province and Sumatera island. The research period began in 2006. This is in line with the establishment and availability of data on the Kepulauan Riau province. But the initial study conducted was since 2001 on all provinces on the island of Sumatera. During the period 2006-2016, the economic growth of Kepulauan Riau province was not inclusive in reducing poverty. This is indicated by the inclusive growth coefficient curve ( $IG_p$ ) below the economic growth coefficient curve ( $\hat{G}_g$ ). The average inclusive growth coefficient ( $IG_p$ ) value is 0.020 lower than the average economic growth coefficient ( $\hat{G}_g$ ) of 0.062. Figure 2 also shows a comparison of the coefficient of inclusive growth in the Kepulauan Riau province with the coefficient of inclusive growth in Sumatera. From 2006-2011 and 2016, the coefficient of inclusive growth in Sumatera is higher than the coefficient of inclusive growth in Kepulauan Riau. So that the average coefficient of inclusive growth in Kepulauan Riau is 0.020 lower than the coefficient of inclusive growth in Sumatera at 0.032.

Kepulauan Riau provincial government continues to increase the welfare of the poor or disadvantaged villages through various poverty alleviation programs. The goals to be achieved from the implementation of the poverty alleviation program are the reduction in the number of poor people and the reduction in the number of disadvantaged villages in the Kepulauan Riau province. This was stated in the Governor of Kepulauan Riau province regulation No. 1 of 2012 concerning the poverty alleviation program of the Riau province. The poverty alleviation program includes (1) Programs to fulfill the basic rights of the poor; (2) Livable house program; and (3) Program for fostering business units for poor people or disadvantaged villages.



**Figure 2. Economic Growth ( $\hat{G}_g$ ) and the Inclusive Growth Coefficient ( $IG_p$ ) of Kepulauan Riau Province and Sumatera Island in 2006-2016.**

Source: Researcher data (2019).

## 5. Conclusion

High economic growth can have an impact on reducing poverty. However, high economic growth does not guarantee inclusive growth. The results of the study show that Jambi and the Kepulauan Riau, which are the provinces with the highest economic growth on the island of Sumatera, have not inclusive growth in poverty. This is indicated by the average incremental growth coefficient ( $IG_p$ ) of Jambi province of 0.038 lower than the average coefficient of economic growth ( $\hat{G}_g$ ) of 0.060. Furthermore, the average inclusive growth coefficient ( $IG_p$ ) of the Kepulauan Riau province of 0.020 is also lower than the average coefficient of economic growth ( $\hat{G}_g$ ) of 0.062. The Jambi provincial government and Kepulauan Riau province are committed to improving the welfare of the poor through various programs and development activities.

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