

MANAGEMENT OF REGIONAL ECONOMIC DEVELOPMENT

Muhardi and Lies Setiasih Hadi

Academic Staff Faculty of Economics UNISBA

ABSTRACT

Indonesia is a country having the areas with the availability of abundant natural resources. However, those abundant resources do not have an optimal and sufficient added value yet for the economic welfare of the people living in those areas. This is caused by the fact that the human resources we have are not able to manage the available natural and capital resources yet. To take the advantage of and to exploit the available economic resources, management of regional economic development should be done effectively and efficiently. The various aspects that must be maintained and developed to manage the regional economic development, among others, are: (1) the regional potentials that can be developed and growth optimally; (2) creating regional competition power through the regional outstanding commodities; (3) the regional development budget must be allocated properly; (4) creating both top-down and bottom-up regional development system; (5) managing the resources effectively; and (6) developing the supporting infrastructure. By exploiting those aspects, it is expected that the regional economy can continuously be strengthened, the social welfare can be increased and, at last, the successful Indonesian economy can be created integratedly.

Key words: Management, development, regional economy, social-economic welfare, economic success.

1. INTRODUCTION

The regional economy is the strength that performs the success of the economy in a certain country. Indonesia as a developing country must combine and integrate the efforts to develop the economy effectively and efficiently. The success of Indonesian economy greatly relies on the regional economic strength. It means that the more the areas are weak in economy, the weaker the Indonesian economy in general is. On the contrary, the stronger the regional economy is as the economic sub-systems, the stronger the Indonesian in economy will be as the economic system.

Indonesia is a developing country, not a poor or underdeveloped country. However, there is a big question “When does this country change into a better or an advanced country?”. What are the problems faced by this country including other countries categorized as the poor and underdeveloped countries. In relation to the major problems faced by the poor, underdeveloped countries and the developing countries, Peter Draker cited in Tanri Abeng (2006:xi) states explicitly that “There is actually no underdeveloped

country, only unmanaged one". It means that to make the countries which are able to create the modernity and welfare, the management of development of all national components must be recognized and understood so the available national resources can be managed properly. The importance of development management, of course, must be understood by the entire national components including the economic actors of regional development. As mentioned before, the success of the regional economic development management is the major factor that performs the national economy. With this in view, the writers are interested to find out the various descriptions of economic problems faced by the regions in Indonesia and to present some solutions for the problems by proposing the management of regional economic development.

2. REGIONAL ECONOMIC PROBLEMS

The economic problems are commonly faced by the countries all over the world, advanced countries, developing and underdeveloped countries. However, the economic problems faced by the developing countries are greater than those faced by the advanced countries. The economic problems in Indonesia vary from one region to another region. It is caused by the fact that the characteristics of the regions are different. However, the low purchasing power and the poverty become the major economic problems faced by the regions in general.

The regional economic problems result from not only the direct economic factors but also various non-economic factors. These economic problems impact on social problems in the society. Indonesia, as the country having various regional characteristics, also has various economic problems. "The problems of insufficient economy will always exist"(Maurice, *et al.* 1982:5). The diversity of regional economic resources reflect the existence of regions having the problems of limited natural resources, the low quality of human resources and the limited capital resources.

In general, the regions in Indonesia can be categorized into modern regions and left-behind regions. The later regions reflect the regions having the economic problems dealing with the weakness in the management of exploitation and the regional economic development. 43% out of 429 regions in Indonesia are categorized as the left-behind regions or about 199 regions. Those regions are spread out in 32 provinces (Republika, 12/5/2006).

The number of those regions shows that most of the regions in Indonesia have weak economy. This economic weakness impacts directly on the social-economic welfare of the people. It is also reflected in the number of the poor, their income and the low purchasing power. The poverty occurred exponentially is caused by the low quality of human resources. The exponential impact of the poverty is the low level of education, bad level of public health and other social life impacts. There are several criteria to

determine the left-behind regions.. They are (a) the level of poverty, (b) the low quality of human resources, (c) the bad level of health, (d) the low financial level and (e) accessibility problem.

It was found out in details that 32.379 villages out of 70.611 are categorized as the left behind villages consisting of 2.745 extremely left-behind villages and 29.634 left-behind villages. 38.232 villages are categorized as modern villages consisting of 493 very modern villages and 36.739 modern villages (Republika, 28/4/2006). Those numbers quantitatively showing the number of villages having economic problems are very significant. With this in view, all the people, especially the government and the economic doers in all levels both in the headquarters and regional levels, can describe it as the social and economic problems that must be overcome. The big question is that why there are many villages which are still left behind in Indonesia.

The problems faced by the villages and the left-behind regions can also be reflected by various indicators such as the low purchasing power of the people, poverty, limited job opportunities, insufficient educational facilities, and various limited supporting infrastructures (Handelman, 2003:3). Those problems show the weakness of economy. Therefore, the management of regional development must be aimed at the problems mentioned above properly. Intention, commitment and regional exploitation become the priority to lift up the economic problems continuously, efficiently and effectively as planned.

3. MANAGEMENT OF REGIONAL ECONOMIC DEVELOPMENT

The success of economy in a certain country is greatly determined by the management of the nation. To develop and grow the regional economy, the proper management is really needed. "The development here is more qualitative than quantitative problem". (Lawn, 2001:29). In this case, the management of regional economic development is meant as the efforts of planning, organizing, and evaluating the economic activities in a certain area in order to accomplish the target of regional economic development effectively and efficiently. The effective but inefficient economic development results in uneconomical or highly-cost development while the efficient but ineffective economic development doesn't have any additional value. The economic development must be carried out in accordance with the principles of effectiveness and efficiency. It is, of course, by considering the importance of the process in achieving the development goals.

The implementation of economic development in the various regions in Indonesia which are not properly managed results in unclear target. It is only implemented for nothing, the national budget is spent, some activities are done but the results are not necessarily much cared. It is clearly not an expected implementation of economic development. The implementation of economic development which is not based on the management

principles will only spend the resources for nothing. Therefore, to develop the regional economy, planning must be conducted properly by, of course, considering the resources, characteristics, and potency of the regions. "The planning of the regions is the planning showing the coherence and unity of economic decisions" (Boudeville, as cited in Glasson, 1994:21).

The success of economic development is supported by not only economic aspects but also various non- economic aspects including the readiness of the society to improve their living quality properly. Since the economic development impacts on the living quality of the society, the economic development must not be carried out in a short term, but must be done gradually and continuously, called "sustainable development" (Lawn, 2001:14) However, it doesn't mean that the economic development in the regional areas must be redone from the beginning and leave what has been done before. If the previous economic development has provided sufficient added value, the development can be developed and growth by doing some better efforts, so it can yield optimal results for the economic development in a certain region. It must be realized that in the management of regional economic development the participation of the regional leaders also determines the success of the development.

The regional leaders are the people who have an important role in the regional economic development. They really function as the managers who are responsible for the success of the region managed. Therefore, a regional leader must have not only a good leadership spirit but also a dominant entrepreneurship spirit. These characteristics can not only encourage the acceleration of the development and modernization of the area but also market the area externally and internally. The leader who can market the region, can not only increase his own self-image for his people but also encourage the investments from outside. By having the investments, it can open various opportunities and job vacancies to improve the development in various economic sectors. As a result, the labor force can also increase. It means that this condition can reduce the unemployment and provide a solution for the regional economic problems.

In managing regional economic development many aspects can seriously be exploited, developed and growth. Since Indonesia is the country having abundant natural resources and being geographically large enough, it's reasonable if it becomes the welfare and modern country. However, unfortunately those abundant natural resources are not able to provide the welfare to the people. It can be said that the weakness is on the inability of the human resources to manage the available resources, meaning that they are not managed efficiently and effectively. As a result, the available resources do not provide the optimal added value to increase the quality and the welfare of the people.

To manage and to exploit the various regional economic resources as well as to create the effective and efficient added value for the improvement of social-economic welfare and the success of regional economic development, regional potentials, regional

economic competition power, development budget, development system, and supporting development infrastructures must be considered.

The existence of relationship among the inter-various mutual determination aspects of the development form a value chain that will result in an added value for the success of regional economic development. The “value chain” mechanism is shown in the following diagram (modified from Porter, 1998:37).

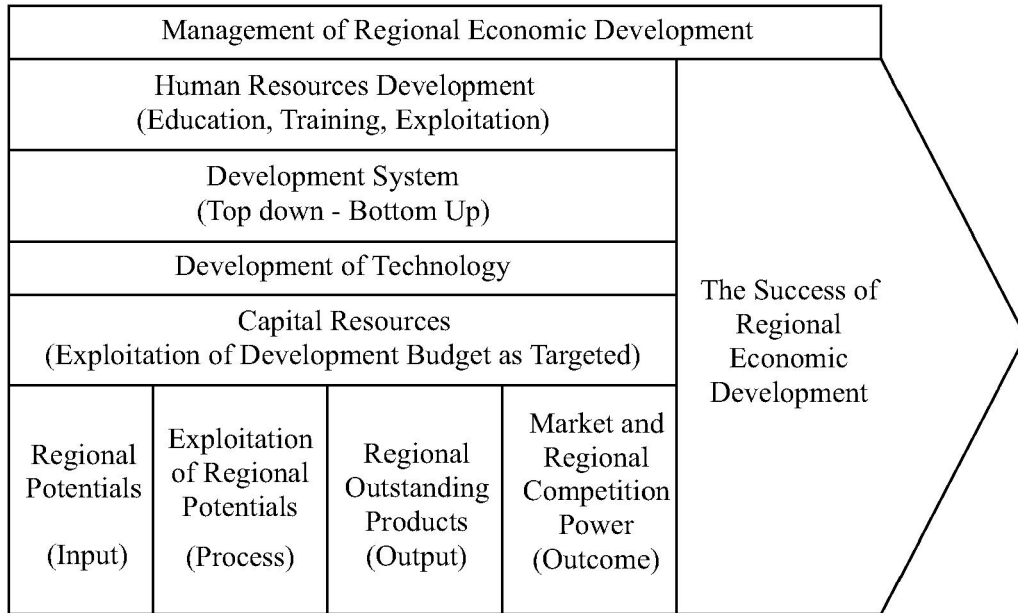


Figure1
Value Chain for The Management of Regional Economic Development

By applying the concept of the value chain, it can be described that to carry out the process of economic development started from the exploitation of regional potentials such as the owned potential resources and the empowerment of competition power through the development of the specific regional outstanding commodities, the availability and right allocation of development budget, the supporting development system and technology are needed. All of them must be mobilized by the right human resources as the key factor. Therefore, the development of human resources in the economic development is really needed.

3.1. Potentials of Regional Areas

The regions in Indonesia basically have their own characteristics and potentials that may be different from one another. With this in view, the economic development must be planned considering those potential economic resources. The implementation and the exploitation of economic development in each region will be different depending

on the characteristics and potentials the regions own. If the regions have similar characteristics and potentials, it is necessary to group the regional potentials integratedly. The economic development which does not refer to and is not based on the regional potentials will not be efficient and effective. Each region must identify the real potentials owned, and the potentials identified can be developed and growth to be the regional economic strength.

The regional economic development can be achieved successfully if the regional potentials are recognized, identified and managed properly and it must be carried out as planned. The implementation of regional development in Indonesia is sometimes carried out without recognizing the visible potentials owned by the region that can be developed and growth in a certain area. As a result, the implementation of the development does not provide a significant added value to the success of regional economy and the social-economic welfare. The potentials that can be developed and growth are those that impact on “the sustainable development” which lasts in the long run not in the short run (Tietenberg,2000:547; Field and Field, 2002:25).

3.2. Regional Economic Competition Power

The regional economic development based on its own potentials and abilities is aimed at competitive regional economic development. Each region must have its own outstanding products. “Commodities are public goods” (Cole, 1999:46). Therefore, among the various commodities produced in a certain region, there must be the ones that can be recognized as the outstanding products. Those outstanding products must be continuously developed. To be the outstanding products must be supported by the available efficient and effective technology (Hudson, 2000:76). The technology is a means needed to produce the competitive products. With this in view, “the production process must be based on the improvement of the abilities how to produce the products technologically” (Cole, 1999:183; Sharp *et al.*, 2004:5). The outstanding products will be the economic strength of the region.

A certain region will have a competitive power if the region has a commodity which is different from the existing commodities. “The difference means that the commodities are different because of the specialty of the commodities produced” (Miller and Van Hoose, 2004:387), better quality, reasonable price adjusted to the market target. Each region is forced to differentiate the outstanding products. The inability of the regions to develop the outstanding products results from the weaknesses in the various resources owned such as their human resources, natural resources and capital resources. However, those resources must be able to be exploited properly if there is a serious commitment among the stakeholders to make the efforts develop their own region and the development will be better in the future.

To this objective, the competition power cannot be built individually and partially but it must be created by the involvement of all components in the region integratedly and

continuously. The competition power created to make the people welfare is the crucial goal of the regional economic development. The strong economy of the people can increase bargaining power and people welfare in the region. It will show the regional economic success and the entire economic strength of a country. The more the regions have outstanding commodities, the stronger the economy of the country will be.

3.3. Development Budget

The development budget is one of the important aspects in the regional economic development. It is part of the development planning that must be planned properly and correctly. It must be realistic but challenging. In planning the budget many relevant and influential elements in the future must be considered. The budget must respond to the activities that will be realized. The activities aren't forced or are just adjusted to the planned limited budget. However, in the real field there are many activities of regional development which are done only to spend the existing budget so the activities aren't effectively aimed at what is expected. In determining development budget, various budget resources, the utilization, controlling and evaluation of the budget must be considered.

Considering that the regions in Indonesia have various characteristics and potentials, the regions should be grouped into several categories. They are basically divided into modern and left-behind regions. The budget allocation from the headquarters can't be divided equally from one region to another region. It must be adjusted to the categories of each region. The allocation of development budget for the left-behind regions must be more prioritized than the modern regions. The mistake in allocating the budget results in the ineffectiveness and inefficiency of the budget. To realize the budget for the regional development, the region must have got the realistic, challenging, clear, measurable, development programs on a timely basis. The evaluation of the budget used must be done transparently so the misuse of the budget can be avoided. The available misuse of the budget might not only make the state suffer but also the people in the region who really need the budget. The efficiency and effectiveness of the budget depend on the management of how to use and to take the advantage of the budget.

3.4. Development System

The top-down regional economic development system in which the planning and implementation design as well as the evaluation are centralized and directed from the headquarters doesn't provide the significant result to the regional economic development successfully. On the contrary, the bottom-up development system can't be fully implemented because the monetary system and the national budget are still determined by the headquarters. "Indonesia as an archipelago consists of many regions having different economic levels. These different economic levels are supported by the regional economic structures, the increasing roles of significant regional policies, and the

available natural and human resources. A part from the fiscal policy, the monetary polices also play an important role in the financially integrated Indonesian economy” (Rizal Adi Prima and Nining I. Soesilo, 2005;2). Fiscal policy impacts significantly on the economy condition (Mankiw, 2000:430). However, the right economic development system is the system in which the planning, implementation, controlling, and evaluation are dominantly conducted in accordance with bottom-up system supported by top-down system. Therefore, it must be realized that the regional economic exploitation must be absolutely corrected in relation to fundamental social and economic reform (Sritua Arief, 1998:261).

Besides the system mentioned above, the government must make some efforts to increase the successful development and the social economic welfare in the regions all over Indonesia by implementing the regional autonomy seriously. By implementing the regional autonomy, it is expected that each region is able to exploit and manage its regional potentials for the sake of the people welfare. However, the equal implementation of regional autonomy in all regions in Indonesia is not optimal yet, because of the different characteristics and potentials. Several regions in Indonesia must implement the regional autonomy because they are really ready to do it, but, of course, there are some regions which are not ready yet to do it. For this reason, the implementation of regional autonomy must be done gradually adjusted to the readiness of the regions to implement the autonomy. The regions which are not ready to implement the system should prepare themselves to do it in a realistic period of time.

3.5. Development Resources

The economic resources are the important aspects in the regional economic development. They are divided into natural resources, human resources, and capital resources or man-made resources (Kamrany, 1978:45). The key to the success of the economic development in a country including the regions in the country is determined by the human resources. In general, it can be said that the regions in Indonesia have abundant natural resources. However, those abundant resources aren’t able to provide the welfare to the people in those regions.

The natural resources are the natural gift provided by Allah SWT for the welfare and advantage of human beings but the human beings who are trusted to manage those natural resources do not take the advantage of this opportunity properly because of their incapability. This is caused by the fact that they have insufficient skill, expertise, seriousness, knowledge, and education to manage the existing resources including the available capital resources. The weakness in the regional human resources aspect is the key factor in the incapability and unsuccessful region in the economic development. It means that although the regions in Indonesia have abundant natural resources, they do not provide meaningful added value for the people, if those regions do not have the human resources who are capable to manage them.

Many foreign people have enterprises in a certain region but this ownership doesn't show the success of the region because the roles of the people in the region aren't as the owners or producers, they only function as employees and consumers. The modern regions are the regions which are capable to position themselves as the regions of producers not as the regions of consumers. To be the producers the quality of human resources will be the important priority. The weakness of the regions in finance or capital resources is caused by the weakness of the human resources as the movers and managers of economic development in the regions.

3.6. Supporting Infrastructures in The Regional Development

Infrastructure is one of the important aspects in the regional economic development in Indonesia. It is an instrument to accelerate the rolling of the economic development wheel. The more available the infrastructures are the better the development is. Therefore, the accelerative development will need the sufficient infrastructures (Faisal Basri, 2002:300). The development in infrastructures must be based on the steady plan for a long term. If it is not planned properly, the high- cost economic development will be inefficient and ineffective.

The development in infrastructures consists of power, roads, bridges, harbors, etc., including administrative bureaucracy that will manage the process and implementation of the development in infrastructures. This development impacts on not only the efficiency of supply chain management in supporting the smoothness of the production process carried out in the regional areas to achieve "the production efficiency" (Perloff, 2001:702), but also the efficiency of transportation and distribution of all economic sectors (O'Sullivan, 2003:114). Thus, it can increase competition power or productivity in those areas. In reality the weakness of infrastructures owned by the regional areas in Indonesia especially in the East part of Indonesia occasionally becomes one of the reasons the inability of those areas in economy.

The East part of Indonesia must be the priority of the development considering this area has many left-behind regions. For that reason, the availability of reasonable infrastructures in those areas is a crucial thing because they will facilitate not only the accessibility of the inter-areas but also the economy and trade relationship inter-islands in Indonesia. It must be realized that the development in infrastructures in a certain region must be adjusted to the layout plan of the region, so the development conducted can be managed properly and continuously.

4. CONCLUSION

It is realized that the availability of economic resources owned in the regional areas in Indonesia is not able to provide successful economy and welfare to the people yet. The main reasons are the inability of their human resources to manage the existing economic resources and to exploit the existing capital resources. To manage and exploit the various

economic resources in the regional areas in order to create the added value effectively and efficiently, several following aspects should be considered.

1. the potentials owned in the regional areas must be developed and growth;
2. the regional economic competition power through the on-going and serious development of specific outstanding commodities must be increased;
3. the regional development budget must be allocated properly;
4. the top-down and bottom-up development system must be applied;
5. the human resources as the key factor must be utilized in the regional development;
6. the infrastructures supporting the success of regional economic development must be developed.

To exploit those various aspects and economic resources, the effective and efficient management is needed. The management includes planning, implementation, controlling, evaluation, and follow-up. The planning is a very crucial step in the regional development because it guarantees the optimal results. Without a good planning, it is difficult to direct the aims and goals of the development. The planning, of course, will not have a meaningful added value if the implementation is not responded to the planning. To know whether the implementation has been carried out in accordance with the planning, there must be an evaluation. It is an important part as the corrective action so what will be done in the future will achieve better results. The management of regional economic development is the on-going, gradual and planned process of development activities. The goal of economic development is to create the strength of regional economy and social and economic welfare of the people in the regional areas.

REFERENCES

- Cole, Ken. 1999. *Economy Environment Development Knowledge*. New York: Routledge.
- Faisal Basri. 2002. *Perekonomian Indonesia: Tantangan dan Harapan bagi Kebangkitan Ekonomi Indonesia*. Jakarta: Penerbit Erlangga.
- Field, Barry C. and Martha K. Field. 2002. *Environmental Economics: An Introduction*. New York: McGraw-Hill Companies, Inc.
- Glasson, John. 1994. *Pengantar Perencanaan Regional*. Diterjemahkan oleh Paul Sihotang. Jakarta: Lembaga Penerbit Fakultas Ekonomi Universitas Indonesia.
- Handelman, Howard. 2003. *The Challenge of Third World Development*, New Jersey: Pearson Education, Inc.
- Hudson, Ray. 2000. *Production, Places and Environment: Changing Perspectives in Economic Geography*. Singapore: Pearson Education Limited.
- Kamrany, Nake M. (Ed.). 1978. *The New Economics of the Less Developed Countries: Changing Perceptions in the North-South Dialogue*. United States of America: Westview Press, Inc.

- Lawn, Philip A. 2001. *Toward Sustainable Development: An Ecological Economic Approach*. United States of America: Lewis Publishers.
- Mankiw, N. Gregory. 2000. *Macroeconomics*. United States of America: Worth Publishers.
- Maurice, S. Charles; Owen R. Phillips, and C.E.Ferguson. 1982. *Economic Analysis: Theory and Application*. United States of America: Richard D. Irwin, Inc.
- Miller, Reger LeRay and David D. VanHoose. 2004. *Macroeconomics: Theories, Policies, and International Applications*. Canada: South-Western, a Division of Thomson Learning.
- O'Sullivan, Arthur. 2003. *Urban Economics*. New York: McGraw-Hill Companies, Inc.
- Perloff, Jeffrey M. 2001. *Microeconomics*. United States of America: Addison Wesley Longman, Inc.
- Porter, Michael E. 1998. *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: The Free Press.
- Republika*, 24 Maret, 28 April, dan 12 Mei 2006.
- Rizal Adi Prima dan Nining I. Soesilo. 2005. Disparitas Efek Regional dan Faktor Penentu Transmisi Kebijakan Moneter Daerah: Kasus Sumatera-Jawa. *Jurnal Ekonomi dan Pembangunan Indonesia*. Volume V No.2, Januari 2005.
- Sharp, Ansel M; Charles A. Register; and Paul W. Grimes. 2004. *Economics of Social Issues*. New York: McGraw-Hill Companies, Inc.
- Sritua Arief. 1998. *Pembangunanisme dan Ekonomi Indonesia: Pemberdayaan Rakyat dalam Arus Globalisasi*. Bandung: Zaman Wacana Mulia.
- Tanri Abeng. 2006. *Profesi Manajemen: Kristalisasi Teori dan Praktik Pembelajaran Manajemen Korporasi, Lembaga Nirlaba, dan Pemerintahan*. Jakarta: Gramedia Pustaka Utama.
- Tietenberg, Tom. 2000. *Environmental and Natural Resource Economics*. United States of America: Addison Wesley Longman, Inc.