

Strategic Area Development And Local Economic Development: A Study In Dharmasraya District, Indonesia

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Abstract: *The implementation of Strategic Area Development Programs in Dharmasraya region in West Sumatra, Indonesia is to realize the acceleration of community economic development based on local resources to alleviate poverty and improve governance of local government. The main priority of Strategic Area Development Programs in Dharmasraya is to develop economic activities based on local resources integrated with the growth of the surrounding regions. This study aims to identify factors that influence the development of the Strategic Area Development Programs in Dharmasraya and its impact on Local Economic Development in Dharmasraya that ultimately affects the level of poverty, unemployment, and regional disparities. This study was conducted using econometric methods of simultaneous equations system from 2006 to 2015. The results prove that the leading commodities, infrastructure, empowerment of entrepreneurs, institutional factors, and investment positively affect the implementation of Strategic Area Development Programs in Dharmasraya as well as Local Economic Development in Dharmasraya. In the end, Local Economic Development is able to reduce the level of economic disparities between regions, as well as to reduce poverty and unemployment.*

Keywords: *Strategic Area Development, Local Economic Development*

I. Introduction

Limitation of development resources, such as funding, human resources, and natural resources, requires the government to make priorities for developing the potential of natural resources. Excellence of commodities that can improve the economy of a region will support national economic development. In Indonesia, the current problem is that the performance of the national economy has not been able to create a well-established regional economy. Many attempts have been made by the government to speed the local economy development based on natural resources management. In an effort to realize the acceleration of development in Dharmasraya, integrated program development is needed as to accelerate the economic development of communities based on local resources to reduce economic disparities, poverty, and unemployment.

The China Asean Free Trade Area (CAFTA) in 2010 and the Asean Economic Community (AEC) in 2015 has forced the Indonesian government to improve the economy of the country. Quality imported products at a low price become an attractive offer in the domestic market. If the government does not immediately improve itself, the Small Medium Enterprises (SMEs) are threatened with bankruptcy and unemployment leading to poverty (Respati, 2010).

Development program to accelerate the region's economy in the era of global trade (AEC) is the Strategic Area Development Program with a focus on Local Economic Development. Efforts to accelerate the region's economic development based on exploitation of natural resources should pay attention to equitable development, environmental aspects, and settlements. To encourage business development of the local economy integrated with regional growth, infrastructure development in an integrated manner is needed. Research results by Setiawan (2010) show that leading commodities, infrastructure, empowerment of entrepreneurs, institutional factors, and investment have an important role for the development of the economy in a particular area. One of the important infrastructures is transportation. In an effort to realize the development of integrated and sustainable Strategic Area Development, investment feasibility as a measurement of business development based on local resources and alternative management in accordance with the potential development of the area are required.

General development trend of Dharmasraya shows better improvement. In addition to natural resources and human resources, Dharmasraya is one of the strategic areas in West Sumatra, which is located at the gate of the southern part of West Sumatra, and the potential is very profitable for business for the surrounding regions. The people of Dharmasraya are agrarian engaged in agriculture for crops and plantations. Potential Dharmasraya natural resources are especially palm and rubber s owned either by the people or by companies.

This study was conducted in the district of Dharmasraya with the aim of analyzing the external factors that consists of leading commodities, infrastructure, empowerment of entrepreneurs, institutional factors, and investment towards Strategic Area Development and the impact on Local Economic Development. This study is

expected to identify factors that influence the acceleration of growth of a region, in this case is the impact of Local Economic Development towards unemployment, regional disparities, and poverty.

II. Teoritical Review

2.1 Strategic Area of the Region

District is defined as a region that has a specific function, having superior products to support the economic activity and the potential to boost economic growth in the surrounding region (Bappenas, 2008). Strategic area is an economic area that potentially has a multiplier effect to the surrounding region.

The Act Number 26 of 2007 on Spatial Planning, Article 1 (30) mentions that the strategic area of the district or city is the area of prioritized spatial arrangement because it has a significant impact toward the district or city in terms of economic, social, cultural, and / or environmental. In the same act, it is described that strategic area is an area in whose ongoing activities have a major influence on (a) the spatial planning of the surrounding region; (b) other activities in similar fields and activities in other fields; and (3) the increase in the welfare of society.

2.2 Local Economic Development

Some organizations define Local Economic Development as a process undertaken jointly by governments, businesses, and non-governmental organizations to create better conditions for economic growth and job creation at the local level (The World Bank). ILO defines the Local Economic Development as a participatory process that encourages partnership between business and government and society in a particular area, which allows cooperation in the design and implementation of development strategies in general, using local resources and competitive advantages in the global context with the ultimate goal of creating decent jobs and stimulate economic activity. Helming (1999) defines Local Economic Development as a process whereby an established partnership between local government, community-based groups, and businesses is made to manage resources to create jobs and stimulate the (growing) economy in a particular region. It can be concluded that efforts to optimize local resources involving government, businesses, local communities and community organizations in order to develop the economy in a region is referred to as Local Economic Development.

2.3 Leading Commodities

Directorate of Urban and Rural Planning (1997) confirms that the determination of the leading commodities consider the factors, namely demand driven and supply driven, or considering market demand and growth demand for commodities. The allocation of more resources to leading commodities is expected to have an impact on regional development.

2.4 Infrastructure

The availability of good infrastructure will increase the quality of life and economic growth of the region. Grigg (1988) describes infrastructure as a physical system that is used to meet basic human needs in the social and economic sphere. Provision of infrastructure in the context of the economy must be able to cope with social problems (Word Bank, 1994).

2.5 Empowerment of Entrepreneurs

According to Bungaran (1998), empowerment of entrepreneurs is an effort to move and place the community as a power base for the development of economic, political, social, and cultural aspects to drive the local economy. Torre (1985) referenced by Parson (1994) suggested that empowerment is “a process through which people become strong enough to participate within, share in the control of, and influence events and institutions affecting their lives, (and that in part) empowerment necessitates that people gain particular skills, knowledge and sufficient power to influence their lives and the live those they care about”. Thus, the purpose of empowerment is “to increase the power of disadvantage” (Ife, 1995:56).

2.6 Institutional Factors

This refers to a rule within a group of people or organizations that facilitate cooperation among members and help coordinate with the hope to relate with each other to achieve common goals (Ruttan and Hayami, 1984). Igbalajobi (2013) explains that institutional rules and signposts are to guide the members of a community group to organize mutually binding relationships between groups.

2.7 Investment or Capital

Capital or investment is one of the pillars of economic growth. Investments may include investments in physical capital and human capital. Physical investment is all expenses that can create new capital (Mankiw, 2000: 24). Human capital investment can be either the values of learning and experience of individuals as

workers to increase productivity and revenue. Some forms of investment in human resources may include education, health and migration (Schultz, 1961).

2.8 Poverty

Poverty includes those concerning (1) shortage of physical facilities for a normal life, (2) high health risks, (3) security risk and vulnerability of social and economic life and the environment, (4) lack of income resulting in inability to have a decent life, and (5) shortage in social life demonstrated by social exclusion, political process exclusion, and low quality of teachers (Specker, 1993 referred to by Muhadjir; 2005: 3).

Poverty describes the limitations of income and consumption, underdevelopment, ignored human dignity, social exclusion, suffering due to illness, dysfunctional physical work, vulnerability (in the face of political and economic changes), lack of sustainability of the source of life, inability to fulfill basic needs, and relative deprivation. Poverty as a state refers to income insecurity, lack of quality basic needs, poor quality of housing and productive assets, inability to maintain good health, dependency and lack of help, anti-social behavior, lack of networking support to get a good life, lack of infrastructure and remoteness, as well as disability and separation (Poli, 1993).

2.9 Unemployment

Unemployment is a condition in which a person belonging to the category of the labor force does not have jobs and is not actively looking for one (Nanga, 2005:249). According to Sukirno (2004:28), unemployment is the number of workers in the economy that are actively looking for work but have not got one. International Labor Organization (ILO) provides a definition of unemployment, as follows:

1. Unemployment is when someone in a group of working-age population during a certain period does not work, and is willing to accept the job, as well as looking for one.
2. Underemployment is when someone who works as an employee and the self-employed during a certain period is forced to work less than the normal working hours, an is still looking for another job or is willing to look for other additional job (BPS, 2000: 4).

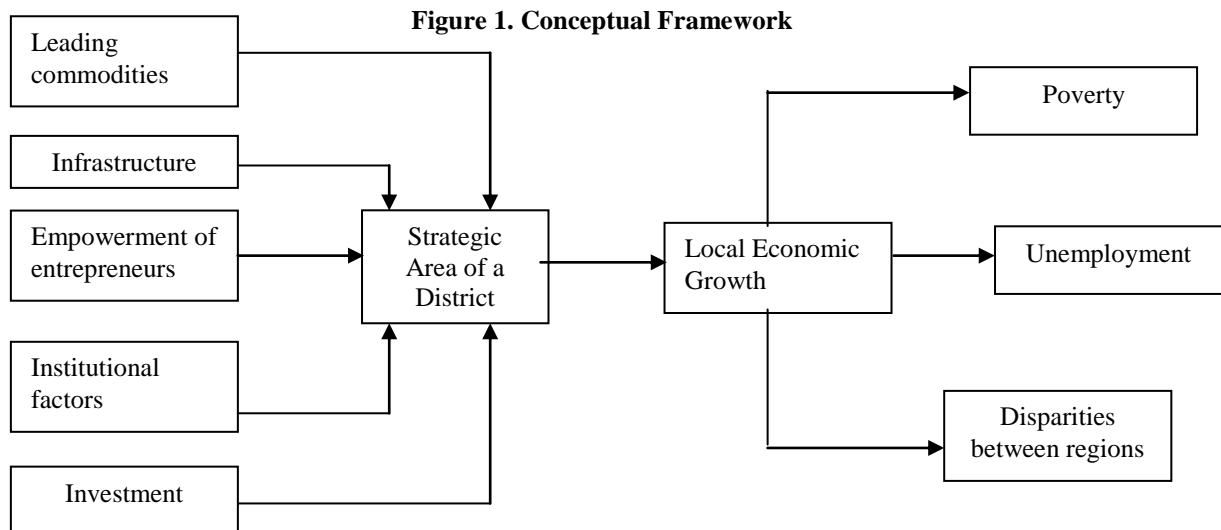
2.10 Inter-regional Economic Disparities

The disparities between regions illustrate the hierarchy of regional system malfunction, causing an over-concentration of growth in certain areas, especially large cities and metropolitan. On the other hand, the growth of other cities and relatively underdeveloped rural areas is not progressing. However, ideally, as a regional system, there is a positive relationship and interaction both among urban and inter-urban with rural areas. Ardani (1992) suggests that the gap or inequality between regions is the logical consequence of development and is a phase towards change in the development itself. Meanwhile, according to Myrdal (1957), the economic gap between regions is defined as the difference in the level of economic development between regions that causes backwash effects, or a process of imbalance

III. Conceptual Research Dan Hipotesis

Long-term objective on the preparation of this framework is to provide the basic concept for the implementation of Local Economic Development program based on the development of potential of the region in the framework of regional economic development in Indonesia. Therefore, the development of this research model is designed to search for primary references, inspired by the philosophy of the basic theory of "The Invisible Hand" (Smith, 1776). Based on the premise of the theory of Adam Smith (1776), the model developed in this study is relevant to the Strategic Area Development and Local Economic Development with the continuity of the regional development. Further, the practice of invisible hand in modern times can be explained by the practice of the national economy based on market mechanisms. However, the market mechanism practiced still involves government, both in national and local level. In the process of development, government intervention would still dominant than the private sector.

Based on the theoretical framework, the variables as the focus of research consist of the leading commodities, infrastructure, empowerment of entrepreneurs, institutional factors, and investment as exogenous variables that affect Strategic Area Development. The better the Strategic Area Development program, the more positive the impact on the Local Economic Development will be. Success in developing the local economy will solve the problem of economic inequality, poverty, and unemployment. The conceptual framework is presented as follows.



Hypotheses

- H₁ : leading commodities, infrastructure, empowerment of entrepreneurs, institutional factors, and investment positively affect Strategic Area Development
- H₂ : the development of Strategic Area positively affects Local Economic Development
- H₃ : the Local Economic Development negatively affects unemployment level, poverty, and disparities between regions.

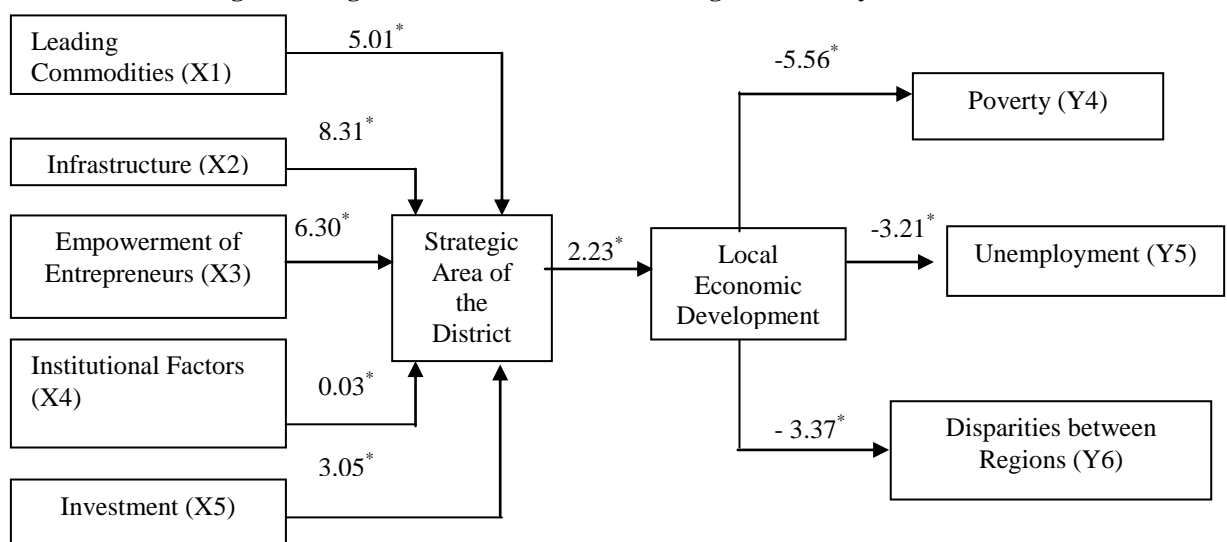
IV. Method

In accordance with the purpose of the study, that is to analyze the causal relationship between the leading commodity, infrastructure, empowerment of entrepreneurs, institutional factors, and investment towards the development of Strategic Area Development as well as the sustainability of Local Economic Development, which in turn will help to reduce poverty, unemployment, and disparities then the design of this study is causality. Recent research findings can be found by first testing the hypotheses.

V. Results

The collected data consists of primary and secondary data during the observation period of 2006 to 2015. Some of the units of analysis collected were performed multiple and simple linear regression analysis.

Figure 2. Regression coefficients from the regression analysis



Note: All coefficients are significant at 0.05 level (when identified by *)

Table 1. Hypothesis Testing

Variable	Regression Coefficient	Variable	Regression Coefficient	Variable	Regression Coefficient	Variable
X1	5.01*					
X2	8.31*				- 5.56*	Y4
X3	6.30*	Y2	2.23*	Y3	- 3.21*	Y5
X4	0.03*					
X5	3.05*				- 3.37*	Y6
	H1-accepted		H2-accepted		H3-accepted	

Note : All coefficients are significant at 0.001 level (when identified by *)

Results of multiple linear regression analysis prove that leading commodity, infrastructure, empowerment of entrepreneurs, institutional factors, and investment simultaneously have significantly positive effect on Strategic Area Development. Infrastructure has the dominant effect compared with other independent variables. Simple linear regression analysis shows that Strategic Area Development has positive influence on Local Economic Development. Results of three simple regression analyses show that Local Economic Development has significant negative effect on economic disparities between regions, poverty, and unemployment.

VI. Discussion

The people of Dharmasraya mostly work as farmers so that the leading commodities prioritized are agricultural products such as rubber and oil palm. Based on the results of the analysis, the leading commodities in Dharmasraya are able to make the region to grow into the Strategic Area of the District. Existing infrastructure includes roads, bridges, river ports, and traditional markets that may make Dharmasraya as Strategic Area of the District. Empowerment of entrepreneurs can make Dharmasraya as Strategic Area of the District. The establishment of institutions has an important role to groups of organizations to work together to make Dharmasraya as Strategic Area of the District. Investments from outside Dharmasraya will have the positive contribution to the development Dharmasraya as Strategic Area of the District, as investment especially oil palm plantations to produce palm oil. Results of research are in line with the results of previous studies such as by Martz and Sanderson (2006), Mawardi (2007) and Yudhisthira (2004), confirming that the development of a region must consider the factors supporting the potential of the region as foreign capital for investment, community empowerment, availability of infrastructure, and government intervention.

Management of Dharmasraya as Strategic Area until now has not been optimal as institutional functions only bring small impact to the success into Strategic Area of the District. This is caused due to the non-existence of institutional model that is ideal for a coordination team. However, professional, visionary, and innovative institutional is instrumental in implementing all forms of planning required for the development of the Strategic Area.

The implementation of Strategic Area Development program in Dharmasraya has proven to increase the Local Economic Development. This proves that the management of an area in order to become a center of economic growth in the strategic area of the district needs to be managed in an integrated, comprehensive, and sustainable manner in order to experience a more focused and organized development. There should be some planning to be developed, such as strategic plan, spatial and infrastructure development, investment development, institutional development, and human resource development.

Local Economic Development affects poverty reduction. This is in line with research by Salvatore (2004), and Hulme and Shepherd (2003). It is very logical that unproductive farmers are guided into productive farmers, so they are more empowered economically, and they have better standard of living.

Local economic development affects unemployment, generating a negative slope. This proves that the increase of Local Economic Development is able to reduce unemployment. This finding is consistent with the results of study conducted by Blackburn (1999) and Tsaliki (2009) that economic development is inversely related to the unemployment rate.

Local economic development of the strategic region will reduce economic disparities between regions or districts. This is evident not only from the empirical testing of the hypothesis but also from the fact that since the separation, economic disparities of Dharmasraya to the surrounding regions have decreased from -20.703 in 2006 to -7.422 in 2015.

VII. Conclusion

The key to success of a strategic area in Dharmasraya is the availability of infrastructure further supported by other external factors such as the empowerment of entrepreneur, establishment of institutions, investment, and leading commodities. The better the implementation of the Strategic Area Development program, the better the Local Economic Development increase will be.

Local Economic Development will effectively reduce the level of poverty, the unemployment rate, and disparities between regions. The intervention of the central government and regional and community participation is needed.

Notes on First Contributor

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