

## **INCLUSIVE ECONOMIC GROWTH ANALYSIS OF CITIES IN NORTH SULAWESI**

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### **Abstract**

National development strives to achieve high economic growth. However, high economic growth does not guarantee high inclusiveness of development. Economic growth must be inclusive and sustainable to create more extensive access and opportunities for all levels of society equitably, improve welfare, and reduce inequalities. This research used secondary data of economic growth, poverty, unemployment, and gini ratio in 2018 – 2022 period of cities in North Sulawesi. Inclusive Growth Index (IGI) is used to measure inclusive economic growth. The results of the analysis show that in 2018 – 2022 period, inclusive growth towards poverty in Manado is still non inclusive, while in Bitung, Tomohon and Kotamobagu is inclusive. Inclusive growth towards unemployment in Manado and Kotamobagu is non inclusive and inclusive in Bitung and Tomohon. Inclusive growth towards gini ratio in Tomohon, Bitung and Kotamobagu is inclusive, while in Manado is non inclusive.

**Keywords:** Inclusive Economic Growth, Poverty, Unemployment, Gini Ratio.

### **1. Introduction**

Economic growth is often used as an indicator that describes the success of a country in achieving welfare. Reduced poverty and unemployment, increasing per capita income and income equality, and the creation of numerous new job possibilities are all signs of healthy economic growth. National development strives to achieve high economic growth, which ultimately allows the realization of an increase in the standard of living and welfare of all people.

High economic growth does not guarantee high inclusiveness of development. Economic growth alone is insufficient and cannot be used as the ultimate development goal. In the 2020-2024 RPJMN, economic growth must be inclusive and sustainable.

According to the National Development Planning (Bappenas), inclusive economic development is economic development that creates broad access and opportunities for all levels of society equitably, improves welfare, and reduces inequalities between groups and regions. According to the World Bank, inclusive growth is focused on increasing economies of scale, increasing access to financial resources, successfully expanding markets, and establishing opportunities that are fair for the next generation.

The Inclusive Economic Development Index (IPEI) to measure the level of inclusiveness of development comprises 3 pillars: Economic Development Growth, Income Equality and Poverty Reduction, and Expansion of Access and Opportunity. Economic growth will be inclusive if it can produce good quality employment, adequate infrastructure, reduce poverty and inequality, and expand access and opportunities for all communities.

Economic growth is the main condition for economic development, where the emphasis is placed on who will grow the economic growth. Suppose a few people only enjoy economic growth. In that circumstance, poverty and income inequality are exacerbated because only part of these people gains from economic progress (Todaro, 2006).

Hapsari (2019) states that high economic growth will not guarantee that someone will get the same privileges as others. The existence of income inequality can inhibit the rate of poverty reduction and also potentially reduce the rate of economic growth.

Quality economic growth leads to inclusive growth, which not only increases output but also eradicates poverty, unemployment, and income inequality. Inclusive economic growth is an important thing to be examined because of the impact on the economic condition of a region

or country. If a region already has inclusive economic growth, it will also have an impact on a larger scale. Therefore, this study focuses on analyzing inclusive economic growth in cities in North Sulawesi.

## **2. Literature Review**

### *Economic Growth Theory*

Sukirno (2012: 29), economic development is the evolution of economic practices that persist through time and boost real national income. The economic growth rate displays the rise in real national income as a percentage from real national income in a given year to real national income in the year prior. Meanwhile, according to Arsyad (1997: 13), economic growth is defined as an increase in GDP, regardless of whether the increase is bigger or smaller than the rate of population growth or if changes in the economic structure take place or not. Economic development is a multifaceted process that includes significant changes in economic structure, social transformation, eradicating poverty, lowering inequality, and reducing unemployment in order to promote economic growth (Todaro, 2003).

### *Inclusive Economic Growth Theory*

According to the International Disability and Development Consortium (IDDC), inclusive economic development is a process to ensure that all marginalized groups of people are fully involved in the development process. Ali and Zhuang (2007) stated growth that promotes equality for all societal strata, especially the impoverished, as well as new economic opportunities is known as inclusive growth.

Inclusive economic growth can be said to be a new approach in growth theories (Huang & Quibria, 2013). This corresponds to the UNDP's concept of inclusive economic growth, which is growth that raises community involvement so that everyone may benefit from growth. Inclusive economic growth is growth that is able to reduce inequality between the agricultural and non-agricultural sectors. Thus, it can be said that inclusive economic growth is pursuing high growth rates and equality as measured by reducing people's income inequality.

Inclusive economic growth is closely related to pro-poor growth, both of which aim to reduce poverty. Nevertheless, inclusive growth has a different dimension when it comes to income equality (Ranieri & Ramos, 2013). Pro-poor focuses more on people below the poverty line, while inclusive growth focuses on equality in all walks of life, whether poor, middle, or rich. This is because growth that only favors the poor will risk reducing economic growth. Therefore, a paradigm of sustainable economic growth and prioritizing equality between levels of society is needed to expand new economic opportunities (McKinley, 2010).

### *Poverty Theory*

Suharyo et al. (2003) said that poverty limits access to food and education, health, clean water, houses, and other needs. According to Chambers (in Nasikun), poverty is a comprehensive idea with five dimensions: Proper, Powerless, State of emergency, Dependency, and Isolation.

Furthermore, Supriatna (1997: 90) stated that a person's ability to choose to live in poverty is restricted and that it does not happen voluntarily. When a population exhibits low levels of health and nutrition, income, productivity at work, education, and well-being, which suggests a cycle of helplessness, it is considered to be poor. Limited human resources can contribute to poverty through formal and non-formal education pathways, with low informal education as a result.

### *Unemployment Theory*

According to the Central Statistics Agency (BPS), unemployment is the percentage of the population that is not working but seeking for job, starting a new business, or not looking for work because they have already been hired but haven't begun working.

Economic growth affects the unemployment rate in a region. Higher economic growth in a region correlates into greater business development prospects and job creation for residents

of that region. In addition, economic growth through increased GDP is expected to absorb labor in the region. This indicates that the decline in the GDP of a region can be attributed to the high number of unemployed in the area. A low unemployment rate can reflect good economic growth (Muslim, Mohammad Rifqi, 2004).

### *Gini Ratio Theory*

The Gini Ratio is a scale that ranges from zero (perfect equality) to one (perfect inequality) and is used to quantify overall inequality. By dividing the area of half the plane where the Lorenz curve is located by the plane ratio between the diagonal line and the Lorenz curve, the Gini coefficient can be calculated.

The concept of inclusive growth stems from the fact that an increase actually follows high economic growth in Asian countries in income inequality. The phenomenon occurred in developing countries in Asia in the 1960s, which confirmed the connection between economic growth and inequality. The result of this inequality is the decline in the level of public welfare which is actually contrary to the original goal of the country's economic development. In that time period, developing countries were able to encourage high economic growth but failed to reduce inequality (Todaro & Smith, 2011). This condition changes the traditional economic view that believes that increased economic growth can be used as an indicator of the success of economic development.

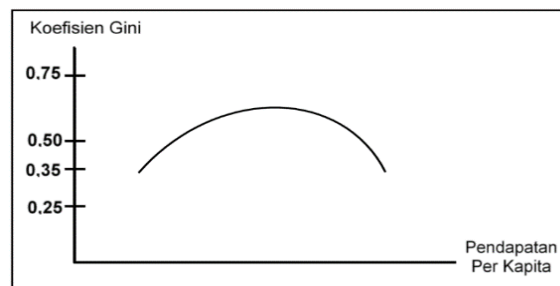


Figure 1. Kuznets inverted U-curve

Kuznet's hypothesis, as shown in the figure above, reinforces the importance of inclusive economic growth. The Kuznet curve shows a positive relationship between percapita income and inequality in the early stages of economic growth. Furthermore, the relationship will turn negative as the economy grows (Todaro & Smith, 2011).

### **3. Methodology**

This research used secondary data from the Central Statistics, namely Economic Growth, Poverty, Unemployment, and Gini Ratio of Manado, Bitung, Tomohon, and Kotamobagu from 2018 – 2022 period.

The Inclusive Growth Index (IGI) is used to measure inclusive economic growth.

#### 1. Inclusive economic growth in reducing poverty:

$$IGp = (gpg/gp) \hat{g}$$

Where:

IGp : inclusive growth coefficient in reducing poverty

Gp : elasticity of poverty to average income

GPG : elasticity of poverty to economic growth

$\hat{G}$  : economic growth

IGp states the inclusiveness of economic growth in reducing poverty, so growth is declared inclusive if the IGp value >  $\hat{G}$ .

#### 2. Inclusive economic growth in reducing unemployment:

$$IGp = (gpg/gp) \hat{g}$$

Where:

IGp : inclusive growth coefficient in reducing unemployment

Gp : elasticity of unemployment to average income

GPG : elasticity of unemployment to economic growth

$\hat{G}g$  : economic growth

IGp states the inclusiveness of economic growth in reducing unemployment, so growth is declared inclusive if the IGp value  $> \hat{G}g$ .

3. Inclusive economic growth in reducing inequality:

$$IGp = (gpg/gp) \hat{g}g$$

Where:

IGp : inclusive growth coefficient in reducing inequality

Gp : elasticity of inequality to average income

GPG : elasticity of inequality to economic growth

$\hat{G}g$  : economic growth

IGp states inclusiveness of economic growth in reducing inequality, so growth is declared inclusive if the IGp value  $> \hat{G}g$ .

4. If  $IGp < \hat{G}g$  means that economic growth is non inclusive.

**4. Research Result and Discussion**

Table 1. Inclusive Economic Growth Index and Poverty

City	Year	EG	Pov	IGI	Exp
Manado	2018	6.65	5,38	0,10188	Non Inclusive
	2019	6.03	5,51	0,59969	Non Inclusive
	2020	0,13	5,86	32,84471	Inclusive
	2021	5.14	6,19	3,24126	Non Inclusive
	2022	5.46	5,85	0,47584	Non Inclusive
Bitung	2018	6.01	6,67	2,5203	Non Inclusive
	2019	4.06	6,49	0,7567	Non Inclusive
	2020	1.37	6,41	6,2905	Non Inclusive
	2021	4.6	6,43	9,1267	Inclusive
	2022	5.61	6,20	6,5373	Inclusive
Tomohon	2018	6.13	5,95	2,52028	Non Inclusive
	2019	6.76	5,62	0,75666	Non Inclusive
	2020	0,03	5,60	6,29045	Inclusive
	2021	2.05	5,69	9,12668	Inclusive
	2022	5.17	5,26	6,53733	Inclusive
Kotamobagu	2018	6.67	5,96	0,17461	Non Inclusive
	2019	6.13	5,71	0,53418	Non Inclusive
	2020	0.2	5,42	0,72287	Inclusive
	2021	4.2	5,74	4,78138	Inclusive
	2022	5.15	5,19	1,28227	Non Inclusive

The results of the analysis show that inclusive growth towards poverty in Manado is still not inclusive, meaning that the elasticity of increasing economic growth must still be in line with the elasticity of poverty reduction in Manado. For Bitung, it shows that there is inclusive growth in 2021 and 2022, which is inclusive of poverty in Bitung.

This also happened in Tomohon which showed that in 2020 - 2022 economic growth was inclusive of poverty in Tomohon. Kotamobagu shows that there is inclusive economic growth in 2021 against poverty, but in 2022 the IGI value is still below the economic growth of Kotamobagu, so efforts are needed for policies towards inclusive economic growth in Kotamobagu.

Table 2. Inclusive Economic Growth Index and Unemployment

City	Year	EG	Unemp	IGI	Exp
Manado	2018	6.65	10.38	0,10188	Non Inclusive
	2019	6.03	10.12	0,59969	Non Inclusive

	2020	0,13	13.88	32,84471	Inclusive
	2021	5.14	12.17	3,24126	Non Inclusive
	2022	5.46	10.47	0,47584	Non Inclusive
Bitung	2018	6.01	11.21	2,5203	Non Inclusive
	2019	4.06	9.49	0,7567	Non Inclusive
	2020	1.37	10.23	6,2905	Non Inclusive
	2021	4.6	9.96	9,1267	Inclusive
	2022	5.61	8.56	6,5373	Inclusive
Tomohon	2018	6.13	8.22	2,52028	Non Inclusive
	2019	6.76	7.48	0,75666	Non Inclusive
	2020	0,03	8.99	6,29045	Inclusive
	2021	2.05	8.84	9,12668	Inclusive
	2022	5.17	8.11	6,53733	Inclusive
Kotamobagu	2018	6.67	5.73	0,17461	Non Inclusive
	2019	6.13	5.62	0,53418	Non Inclusive
	2020	0.2	7.44	0,72287	Non Inclusive
	2021	4.2	7.32	4,78138	Inclusive
	2022	5.15	6.59	1,28227	Non Inclusive

The results of the analysis show that inclusive growth towards unemployment in Manado is still not inclusive, meaning that the elasticity of increasing economic growth must still be in line with the elasticity of decreasing unemployment in Manado. For Bitung, it shows that there is inclusive growth in 2021 and 2022, which is inclusive of Bitung's unemployment.

This also happened in Tomohon which showed that in 2021 and 2022 economic growth was inclusive of unemployment in Tomohon. Kotamobagu shows that there is inclusive economic growth in 2021 against unemployment, but in 2022 the IGI value is still below the economic growth of Kotamobagu, so efforts are needed for policies towards inclusive economic growth in Kotamobagu.

Table 3. Inclusive Economic Growth Index and Gini Ratio

City	Year	EG	GR	IGI	Exp
Manado	2018	6.65	0.400	0,1019	Non Inclusive
	2019	6.03	0.360	0,5997	Non Inclusive
	2020	0,13	0,361	32,8447	Inclusive
	2021	5.14	0.346	3,2413	Non Inclusive
	2022	5.46	0.373	0,4758	Non Inclusive
Bitung	2018	6.01	0.340	0,3077	Non Inclusive
	2019	4.06	0.330	1,3400	Non Inclusive
	2020	1.37	0.350	2,9740	Inclusive
	2021	4.6	0.324	5,7051	Inclusive
	2022	5.61	0.346	2,0901	Non Inclusive
Tomohon	2018	6.13	0.350	2,52028	Non Inclusive
	2019	6.76	0.310	0,75666	Non Inclusive
	2020	0,03	0.360	6,29045	Inclusive
	2021	2.05	0.354	9,12668	Inclusive
	2022	5.17	0.374	6,53733	Inclusive
Kotamobagu	2018	6.67	0.390	0,17461	Non Inclusive
	2019	6.13	0.330	0,53418	Non Inclusive
	2020	0.2	0.320	0,72287	Inclusive
	2021	4.2	0.346	4,13752	Inclusive
	2022	5.15	0.404	1,28227	Non Inclusive

The results of the analysis show that the inclusive growth of inequality (Gini Ratio) in Manado in the last 5 years was only inclusive in 2020 during the time when the pandemic began in the world. This means that efforts still need to be made to emphasize policies that are pro-inclusive economic growth in Manado. For Bitung, it shows that there is inclusive growth in 2021, but the government still strives to continue to support policies towards inclusive economic growth in Bitung.

It appears that for Tomohon there is inclusive economic growth towards income inequality in Tomohon after the pandemic. Of course, this is important to maintain towards inclusive economic growth. Kotamobagu shows that there is inclusive economic growth in 2021, but in 2022 the IGI value is still below the economic growth of Kotamobagu, so efforts are needed for policies towards inclusive economic growth in Kotamobagu.

In the last 5 years, it appears that there was a pandemic year that occurred in early 2020 which affected various economic activities of various economic agents. And the government through its policies seeks to overcome national economic conditions in the midst of the world economy through various policies such as the PSBB policy which was later changed to PPKM, budget refocusing policy and national economic recovery policy. This is the basis for researchers to put more emphasis on the results of the inclusive growth index (IGI) in 2018, 2019, 2021 and 2022.

## **5. Conclusions and Recommendations**

### **Conclusions:**

The results of the analysis show that in 2018 – 2022 period, inclusive growth towards poverty in Manado is still non inclusive, while in Bitung, Tomohon and Kotamobagu is inclusive. Inclusive growth towards unemployment in Manado and Kotamobagu is non inclusive and inclusive towards Bitung and Tomohon. The results of inclusive growth towards Gini Ratio in Tomohon, Bitung and Kotamobagu is inclusive, while in Manado is non inclusive.

### **Recommendations:**

With the results of research showing that economic growth in Manado, Bitung, Tomohon and Kotamobagu tends to run in a non-inclusive manner and there are still most paradoxes, it is advisable for governments to focus more on equitable distribution of development results and distribution of benefits from these growths, and not just pursue the achievement of high growth. This can be done by creating development programs that are directly aimed at addressing growth problems such as poverty, unemployment and inequality.

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