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CPS Paper

The Role of Special Economic Zones (SEZ) in the Formation of Club Convergence in Indonesia

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Brief Description

Regional inequality still become an important issue to discuss in developing countries.

One of Indonesia's Government objectives are development that is evenly distributed throughout region.

Based on BPS (Statistics Indonesia) data, it appears that the ratio between the region with the highest GDP percapita, which is DKI Jakarta and the region with the lowest GDP percapita, which is East Nusa Tenggara, continues to increase until it reaches its peak in 2019.

The increase in inequality is a major source of instability in society and is a major obstacle for the government to achieve its goals.

One of the policies taken by the government to decrease the inequality in Indonesia is to build Special Economic Zones (SEZs) which are spread all over region.

The existence of a SEZ is expected to have a positive impact on the area and its surroundings because the development of a SEZ is followed by the construction of facilities that can maximize industrial activities, foreign trade, and other various economic activities, as well as creating international competitiveness.
This study attempts to identify club convergence at the region/district level in Indonesia using the nonlinear time-varying factor model proposed by Phillips & Sul (2007).

The convergence test is used to see the occurrence of equitable development or the presence of regional inequality.

In addition, this study also aims to provide insight into the role of SEZ and the factors that responsible for the formation of club convergence by using an ordered logit model.

The results of the study using real GDP percapita show that there are five convergent clubs and one divergent group in Indonesia.

The number of convergent clubs obtained from the results of this study provides insight to policy makers that the income gap in Indonesia is still quite concerning.

Furthermore, this study also finds that the initial conditions of the average years of schooling, the ratio of investment to GDP, infrastructure index, district dummy, and SEZ dummy have an important role as a factor in forming a club convergence in Indonesia.

Abstract

Regional inequality still become an important issue to discuss in developing countries. One of Indonesia's Government objectives are development that is evenly distributed throughout region. Based on BPS (Statistics Indonesia) data, it appears that the ratio between the region with the highest GDP percapita, which is DKI Jakarta and the region with the lowest GDP percapita, which is East Nusa Tenggara, continues to increase until it reaches its peak in 2019. The increase in inequality is a major source of instability in society and is a major obstacle for the government to achieve its goals. One of the policies taken by the government to decrease the inequality in Indonesia is to build Special Economic Zones (SEZs) which are spread all over region. The existence of a SEZ is expected to have a positive impact on the area and its surroundings because the development of a SEZ is followed by the construction of facilities that can maximize industrial activities, foreign trade, and other various economic activities, as well as creating international competitiveness.
This study attempts to identify club convergence at the region/district level in Indonesia using the nonlinear time-varying factor model proposed

by Phillips & Sul (2007). The convergence test is used to see the occurrence of equitable development or the presence of regional inequality. In addition, this study also aims to provide insight into the role of SEZ and the factors that responsible for the formation of club convergence by using an ordered logit model. The results of the study using real GDP percapita show that there are five convergent clubs and one divergent group in Indonesia. The number of convergent clubs obtained from the results of this study provides insight to policy makers that the income gap in Indonesia is still quite concerning. Furthermore, this study also finds that the initial conditions of the average years of schooling, the ratio of investment to GDP, infrastructure index, district dummy, and SEZ dummy have an important role as a factor in forming a club convergence in Indonesia.