

CHAPTER I

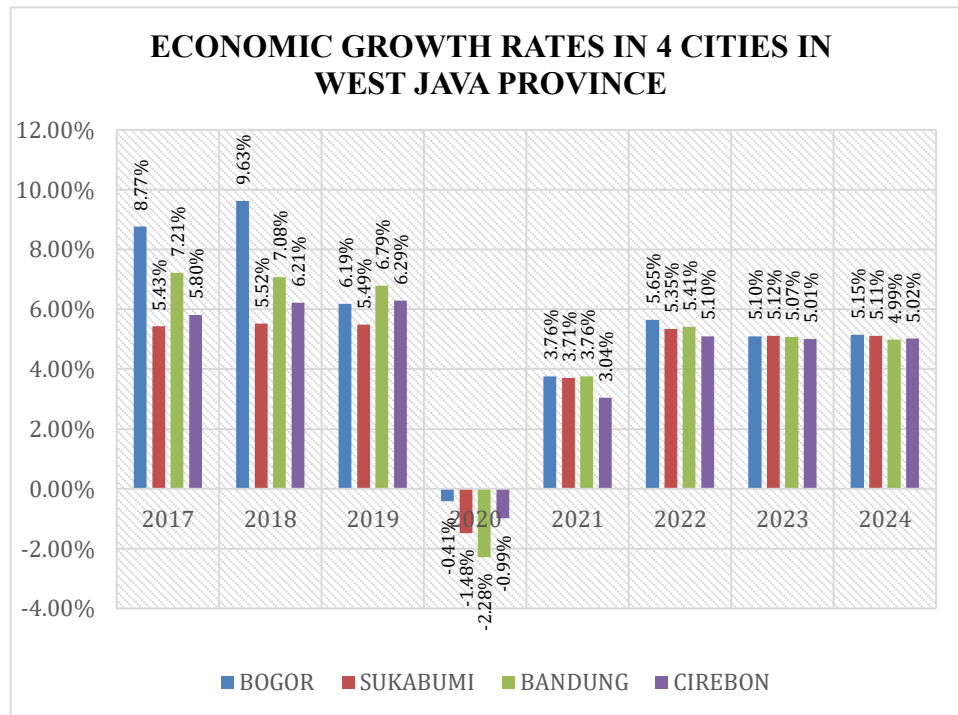
INTRODUCTION

1.1 Background

Regional economic development in Indonesia faces a fundamental challenge in the form of persistent and deepening spatial disparities. These disparities are evident not only between provinces but are also particularly pronounced between regencies and cities within a single province. West Java Province, as one of the drivers of national economic growth with the third-largest contribution after Jakarta and East Java, exhibits a highly diverse and dynamic economic landscape. This diversity is evident in the economic development of four major cities: Bandung as the provincial administrative center and a hub for service industries; Bogor as a satellite city and a support hub for the Jakarta metropolitan area; Sukabumi as a regional trade center and the gateway to the southern region; and Cirebon as the entry point and economic growth center for the eastern part of West Java.

Economic growth in West Java from 2018 to 2023 experienced irregular fluctuations but remained generally strong despite external disruptions. In 2018, the economic growth rate reached 5.64%, the highest figure during that period. This growth was driven by strong growth in the manufacturing sector, which contributed 6.2%, and the trade sector, which contributed 5.8%. Within the trade sector, exports of chemicals and textiles grew by 8.2%, supported by infrastructure investments such as the Japek 2 Toll Road, which spurred growth in the construction sector.

Figure 1.1 Economic Growth Rates in 4 Cities in West Java Province



Source: Central Statistics Agency

The city minimum wage is one aspect considered vital and has a strong, often debated influence in the context of regional economic growth. Minimum wage policy is ambiguous: on one hand, it has the potential to increase purchasing power and aggregate consumption (the aggregate demand channel); on the other hand, it can increase production costs, reduce corporate profits, and potentially hinder investment growth and labor absorption (the cost-push channel). The 2017–2024 period showcased highly dynamic and significant variations in wage policies. There is a sharp disparity in the nominal UMK across cities. The city of Bandung set the UMK at Rp. 4,209,309 in 2024 (up 3.97% from 2023), Bogor City at Rp. 4,813,988, far higher than Sukabumi City (Rp. 2,834,399) and Cirebon City (Rp. 2,533,038).

This disparity is not merely nominal but also reflects significant gaps in productivity and living cost structures across cities. The sharp increases in the

minimum wage over several periods contrast with the wage stagnation in 2021 (when most cities did not raise the minimum wage) due to the pandemic's impact on business capacity. A comparative analysis of the impact of these wage policies across four cities with differing cost structures and industrial characteristics is highly relevant for assessing the effectiveness of wage policies in either driving or hindering local economic growth.

A noteworthy phenomenon is the emergence of a welfare paradox in all four cities: relatively strong economic growth is not always accompanied by a significant decline in the open unemployment rate (OUR) or an equitable improvement in the quality of public welfare. BPS data indicates that the OUL in the four cities remains relatively high and has even shown an upward trend in recent years. Bandung recorded an OUL of 6.36% in 2024, Bogor 7.34%, Sukabumi 8.34% in 2024, and Cirebon 6.29% in 2024. All these figures exceed the national average of approximately 4.73% in 2024, indicating that these cities face significant structural challenges in absorbing the labor force.

This indicates that the economic growth occurring has not been optimal in creating positive impacts on labor absorption and enhancing socio-economic inclusion—or, in economic terms: growth characterized as “jobless growth” or “growth with persistent unemployment.” This is a particular urgency given that demographic projections show the influx of young laborers will continue to rise in the coming decade, requiring economic growth that is not only high but also job-intensive.

The macroeconomic policy and investment context in West Java during the 2017–2024 period serves as a crucial backdrop for understanding the development

dynamics of the four cities. The West Java Provincial Government has launched a number of strategic initiatives designed to promote sustainable economic growth, including: improving the certainty and ease of business licensing to attract domestic and foreign investment; developing downstream industries based on regional potential (agriculture, plantations, fisheries, and tourism); inclusive investment strategies through job creation and enhancing the competitiveness of SMEs; and accelerating the green economy and sustainable development.

The implementation of mega-infrastructure projects is also being carried out in parallel, including the construction of Patimban Port, Kertajati Airport, the Cisumdawu Toll Road, and the Whoosh High-Speed Train (Jakarta-Bandung), all designed to enhance economic connectivity and market accessibility at both the regional and national levels. Investment realization in West Java reached Rp 210.6 trillion in 2023, positioning West Java as the province with the highest investment in Indonesia, with an ambitious target to increase to Rp 247–250 trillion in 2024. This investment is believed to be one of the main drivers of economic growth; however, its impact on job creation and increased local productivity still requires further in-depth research.

The selection of the cities of Bandung, Bogor, Sukabumi, and Cirebon as the focus of this study is based on their strategic representation of the diversity of urban development in West Java. The city of Bandung represents the characteristics of a regional metropolitan city with a diverse economic base and as the provincial administrative center; the city of Bogor represents a satellite/support city with high connectivity to the Jakarta megacity and an economic base dominated by household consumption and trade; Sukabumi City represents a developing secondary city with

an economic function as a distribution hub and regional trade center in the southern region; and Cirebon City represents the eastern growth corridor with specializations in specific sectors (rattan industry, sand mining, trade) and a role as an economic gateway to the eastern region of West Java.

Furthermore, the dynamics of economic development in these four cities cannot be separated from the context of globalization and the increasingly intensive digital transformation during the 2017–2024 period. Globalization has opened opportunities for access to international markets, but it has also introduced risks of external instability such as commodity price fluctuations and changes in global supply chains. The city of Bandung, as a hub for technological innovation and startups, has capitalized on this digital wave through the development of a digital ecosystem encompassing the e-commerce, fintech, and creative industries sectors. In 2023, the digital sector's contribution to the city of Bandung reached approximately 15%, indicating a transformation from a traditional economic base to a more knowledge-based model

Economic development in these four cities is heavily dependent on environmental sustainability. Green economic policies have become an integral part of development strategies due to increasing pressure from climate change. The West Java Provincial Government, through the "West Java Green Economy" program, has been promoting the transition to renewable energy, with a target of reducing carbon emissions by 30% by 2030. In Bandung, this initiative is reflected in the " " which involves the development of green industrial zones and the promotion of electric public transportation, contributing to a 15% reduction in air pollution since 2020. Bogor, with its significant forest coverage, has implemented

conservation programs that integrate the economy with ecotourism, generating additional revenue from sustainable tourism.

The cities of Sukabumi and Cirebon, although more focused on the extractive sector, have begun adopting environmentally friendly practices, such as reforestation of post-mining land and the development of organic farming. However, implementation challenges remain, including budget constraints and resistance from traditional business operators. Empirical analysis indicates that cities with higher HDIs, such as Bandung, are more effective at adopting green policies, suggesting a positive relationship between human capital and sustainability.

Future projections suggest that demographic challenges will become increasingly complex. With the demographic dividend expected to peak in the 2030s, these four cities need to prepare for a large influx of young workers. Therefore, policies promoting vocational education and digital skills training are a priority, to transform demographic potential into a competitive advantage.

Given this complex background, there is an academic and practical urgency to conduct an in-depth and rigorous empirical analysis of the impact of the Labor Force Participation Rate, the Human Development Index, and the City Minimum Wage on economic growth in these four cities. This study is expected to fill gaps in the literature regarding the dynamics of economic growth and its determinants in secondary and regional metropolitan s in developing countries, the transmission mechanisms of minimum wage policies in the context of labor markets that are spatially, sectorally, and demographically segmented, the elasticity and relevance of human capital to economic growth across different levels of urban development,

spatial heterogeneity in local economic responses to external shocks and policy changes.

The Labor Force Participation Rate reflects the extent to which the labor force is engaged in the production process; the Human Development Index describes the quality of the population in terms of education, health, and purchasing power; while the minimum wage represents government policy that impacts workers' well-being and the public's purchasing power. The selection of the cities of Bandung, Cirebon, Bogor, and Sukabumi is based on differences in economic characteristics, levels of development, and labor market structures among cities in West Java, making them particularly suitable for comparative analysis.

1.2 Problem Statement

Based on the background described above, the following research question can be formulated:

1. What is the effect of labor force participation on economic growth in the cities of Bandung, Cirebon, Bogor, and Sukabumi?
2. What is the effect of the human development index on economic growth in the cities of Bandung, Cirebon, Bogor?
3. What is the effect of the minimum wage on economic growth in the cities of Bandung, Cirebon, Bogor, and Sukabumi?

1.3 Research Objectives

Based on the background described in the previous section, the objectives of this study can be formulated as follows:

1. To analyze the partial effect of labor force participation rates on economic growth in the cities of Bandung, Cirebon, Bogor, and Sukabumi.
2. To analyze the partial effect of the human development index on economic growth in the cities of Bandung, Cirebon, Bogor, and Sukabumi.
3. To analyze the partial effect of the minimum wage on economic growth in the cities of Bandung, Cirebon, Bogor, and Sukabumi.

1.4 Scope of the Study

This study utilizes secondary data in the form of annual data obtained from official institutions such as the Central Statistics Agency (BPS) and relevant agencies at the provincial and city levels over an eight-year observation period across the four selected cities. The analysis employs a quantitative approach using regression models, with the expected results capable of measuring the magnitude of the influence of TPAK, HDI, and the Minimum Wage on economic growth both partially and simultaneously. The research gap in this study lies in the limited number of empirical studies that specifically examine the simultaneous influence of these three variables at the city level in West Java, particularly in the cities of Bandung, Cirebon, Bogor, and Sukabumi, covering the most recent period up to 2024.

The limited geographical scope, which covers only four cities, means that the research findings cannot yet be generalized to all regencies/cities in West Java Province, which have different economic and social characteristics. The independent variables analyzed are limited to TPAK, HDI, and the Minimum Wage; thus, other factors that theoretically also influence economic growth—such

as investment, government spending, infrastructure, trade openness, and macroeconomic stability.

1.5 Research Benefits

For the university, this research is expected to contribute to the development of economic science, particularly in the study of development economics and regional economics focused on the determinants of economic growth at the regional level, and can serve as a literature review, especially regarding the discussion of the variables used in this study.

This study is expected to enrich the literature on the role of labor force participation, human resource quality as reflected in the Human Development Index (HDI), and minimum wage policies in driving economic growth in urban areas within provinces with heterogeneous characteristics, such as West Java. This study is expected to be beneficial for various stakeholders, particularly local governments at the provincial and city levels, such as the West Java Provincial Government, the City Governments of Bandung, Cirebon, Bogor, and Sukabumi, as well as related agencies such as the Regional Development Planning Agency (Bappeda), the Department of Manpower, and the Department of Social Affairs.

The research findings can serve as a basis for formulating policies to improve human resource quality, expand employment opportunities, and set minimum wages that are more aligned with the goals of sustainable economic growth and improved community welfare. For policymakers, an understanding of the extent of the influence of TPAK, HDI, and the Minimum Wage on economic growth can assist in determining program priorities, budget allocation, and policy synchronization between the central and local governments.