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SECTOR CLASSIFICATION AND ECONOMIC INEQUALITY IN CILACAP REGENCY

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Abstract: The economic growth of Cilcap Regency as seen from the total GDP in the 2015-2022 period shows fluctuations, so an analysis is needed that aims to find out the 17 sectors that contribute greatly to the formation of total GDP and equitable regional development to reduce regional economic inequality. Therefore, this study aims to classify 17 sectors into 4 clusters, namely superior, potential, developing and advanced and will analyze income inequality in Cilacap Regency. The research method used 2 analyses, namely, Location Quotient (LQ) analysis and Williamson Index (IW) analysis. The data source comes from the Central Statistics Agency of Cilacap Regency and Central Java Province, vulnerable in the 2015-2022 period. The results of the study show that the classification of sectors in the leading categories: mining and quarrying, potential: manufacturing, developing: 15 other sectors and lagging: no sectors are categorized as disadvantage. The level of economic inequality in the Cilacap Regency area in 2015-2022 has decreased from 0.31 to 0.17, this indicates that the economic development of Cilacap Regency is increasingly even, this is due to the IW value of < 0 which is close to the value of 0. Although there is still a regional economic deficit, it is still categorized as low because the IW value < 0.3.

Keywords: *Location Quotient, Indeks Williamson, Industry*

Abstrak: *Pertumbuhan ekonomi Kabupaten Cilcap yang dilihat dari total PDRB pada periode 2015-2022 menunjukkan fluktuasi sehingga diperlukan analisis yang bertujuan untuk mengetahui 17 sektor yang berkontribusi besar dalam pembentukan total PDRB serta pemerataan pembangunan daerah guna mengurangi ketimpangan ekonomi wilayah. Maka penelitian ini bertujuan untuk mengklasifikasi 17 sektor menjadi 4 kluster yaitu unggulan, potensi, berkembang dan tertinggal serta akan menganalisa ketimpangan pendapatan di Kabupaten Cilacap. Metode penelitian menggunakan 2 analisis yaitu, analisis Location Quotient (LQ) dan analisis Indeks Williamson (IW). Sumber data berasal dari Badan Pusat Statistik Kabupaten Cilacap dan Provinsi Jawa Tengah, rentan waktu 2015-2022. Hasil penelitian menunjukkan bahwa klasifikasi sektor kategori unggulan : pertambangan dan penggalian, potensial : industri pengolahan, berkembang : 15 sektor lainnya dan tertinggal : tidak ada sektor terkategori tertinggal. Tingkat ketimpangan ekonomi wilayah Kabupaten Cilacap pada tahun 2015-2022 mengalami penurunan dari 0.31 menjadi 0.17 hal ini mengindikasikan bahwa pembangunan ekonomi kabupaten Cilacap semakin merata hal ini dikarenakan nilai IW < 0 yang mendekati nilai 0. Meskipun masih terdapat ketimpngan ekonomi wilayah masih terkategori rendah dikarenakan nilai IW < 0.3.*

Kata Kunci: *Location Quotient, Indeks Williamson, Lapangan Usaha*

INTRODUCTION

A region will not be separated from the economic activities that occur in every activity of life (Wasdani & Prasad, 2020). Economic activities that occur at all levels of society in an area (Dahliah, 2020), which have different characteristics in terms of natural resources, socio-economy, geographical location and facilities and infrastructure (Xu & Dobson, 2019). These differences in characteristics cause the development policy process between regions to be unequal so that it will affect the results of economic growth in each region where there are regions that experience faster growth compared to other regions, so that an even development process is needed without special treatment in certain areas by maximizing the resources owned (Sochirca et al., 2016; Xu & Dobson, 2019). The implementation of regional autonomy has changed the development pattern to bottom-up which requires regions to be given full authority in managing their own regions from a socio-economic point of view so that regions such as districts/cities and provinces will result in increasingly fierce competition between regions (Basuki & Mujiraharjo, 2017). Each region must be able to increase its economic growth as one of the indicators of regional performance and measure the success of the development of a region (Ma'ruf & Wihastuti, 2008). Regional economic growth and development do not only depend on the sector's output capabilities, but also the role of MSMEs in terms of supply and demand for raw materials and the production process of goods, so support is needed to strengthen and sustain MSMEs by providing training in financial reports and marketing strategies as carried out in community service schemes (Kurniawati et al., 2021; Sastrodiharjo et al., 2021).

Regional development must adjust to the priorities and potentials possessed by each region in striving for more balanced development that aims to stimulate economic growth and job creation in the region (Fattah & Rahman, 2013) and achieve welfare and income equity (Liyanaarachchi et al., 2016). The success of a region's economic development can be known by an increase in the total value and percentage of aggregate output of goods and services in the Gross Regional Domestic Product (GDP) in a certain period of time both comprehensively and in the business field, thus indicating that the growth of the Gross Regional Domestic Product (GDP) also means an increase in regional income (Katti et al., 2019; Nguyen, 2019; Thierry et al., 2016). The GDP growth of Cilacap Regency which fluctuated during the 2011-2019 period where in 2015 managed to beat the growth of Central Java province by 5.96 percent, but experienced a decrease in growth of -10.28 percent which is much worse when compared to the decline in the growth of Central Java province of -2.65 percent in the 2020 period due to the Covid-19 pandemic, but one year later the economy of Cilacap regency experienced an economic recovery that began an increase in economic growth of 2.15 percent and back above 5% in 2022 which can be seen in Figure 1 below.

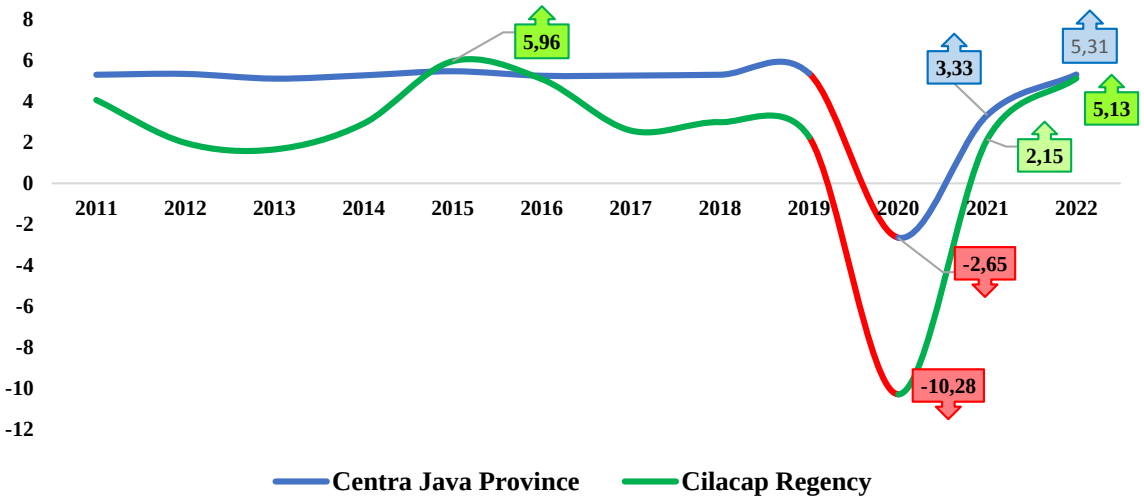

Figure 1. Economic Growth Rates of Cilacap Regency-Central Java Province
Source: Central Statistics Agency of Central Java Province

The economic growth of Cilacap Regency is part of the condition of the total gross regional domestic product (GDP) consisting of 17 business fields. Figure 2 shows the average contribution of 5 business fields to the total GDP, namely the Manufacturing of 69.24 percent, agriculture, forestry and fisheries of 7.29 percent, large and retail trade; car and motorcycle repair by 5.27 percent, construction by 4.85 percent and mining and quarrying by 2.61 percent. The Manufacturing shows that it dominates the largest contribution in 2015-2022, but the growth trend of the Manufacturing does not show a significant increase because it still fluctuates where it touches growth of 5.76 percent and then decreases until the deficit during the Covid-19 pandemic of -13.85 percent which again recovers the surplus by 3.41 percent

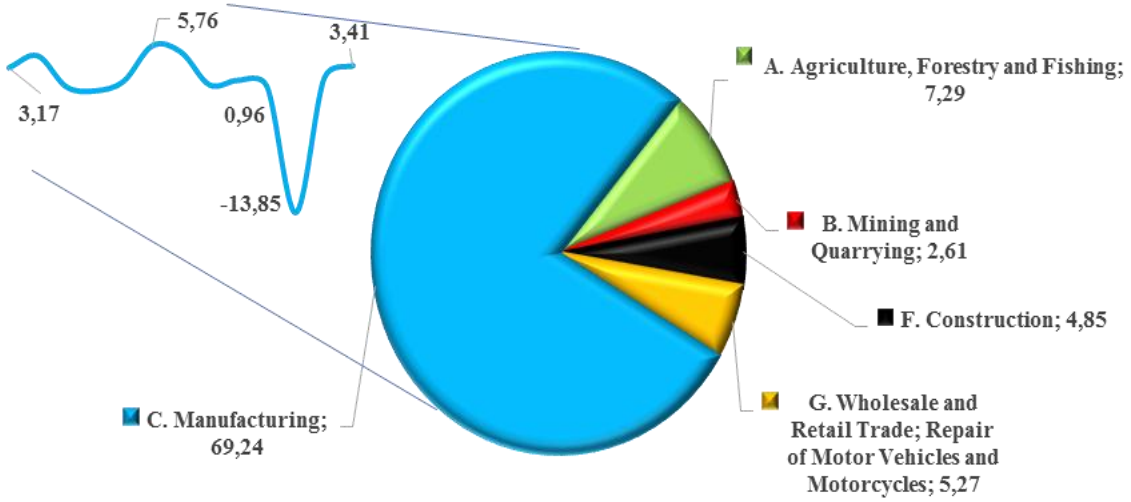

Figure 2. Average Largest Contribution of 5 Business Fields to the Total GDP of Cilacap Regency in 2015-2022
Source: Central Statistics Agency of Central Java Province

Figure 2. shows the increasing economic growth in Cilacap Regency, where this economic growth is formed from the role of 17 sectors (business fields) in the GDP (Gross Regional Domestic Product), regional economic development can be realized, one of which is

from the creation of jobs from dominant and superior sectors so that it will increase the region and reduce the level of inequality (Jafar & Meilvidiri, 2021). The goal of regional potential development is the creation of a multiplier effect on increasing economic growth in the future and more and more leading sectors indicate success in regional development (Meilvidiri et al., 2019)

The explanation of the problem above shows that a business field that is able to contribute dominantly to the total GDP has not been able to show a sustainable increase in output growth from year to year. This study aims to answer the classification of 17 business fields by using a comparison of the contribution and growth of each business field using location quotient analysis and finding out the inequality of Cilacap regency in terms of per capita income of its community using Williams index analysis. The benefit of the results of this study is to be able to describe the real condition of the business field excavation and income inequality and become a reference for the Cilacap district government in formulating policies regarding regional planning and economic growth so that it is able to get maximum results in the process of implementing and evaluating policies for the sake of achieving the welfare of the people of Cilacap Regency.

LITERATURE REVIEW

Economic Base Theory

The economic base theory is based on his view that the rate of economic growth of a region is determined by the magnitude of the increase in exports from that region. Economic activities are grouped into base activities and non-base activities. Base activities are activities that are exogenous, meaning that they are not bound to the internal conditions of the regional economy and at the same time function as a driver for the growth of other types of jobs, while non-base jobs are activities that are endogenous (do not grow freely), meaning activities to meet the needs of the community in the area itself and its growth depends on the general economic conditions of the region (Yuuhaa, 2013). The economic base theory has two sectors of activity, namely the economic base sector and the non-economic base sector. The base sector is a sector that has great potential in determining overall development in the region, while the non-base sector is a supporting sector in the overall development. Base activities are activities oriented to the export of goods and services outside the boundaries of the relevant economic area because this sector has met the needs within the region. Non-base activities are activities to provide goods and services needed by people within the boundaries of the relevant economic area without exporting outside the region because the sector's ability to meet local needs is still limited. The scope of production and marketing is local. The first proponent of the pure export-base theory was Tiebout which was later developed in the sense of regional economics, where export is defined as the activity of selling products/services outside the region either to other regions in the country or abroad (Hutapea et al., 2020). LQ analysis measures the concentration of an activity (industry) in an area by comparing its role in the regional economy with the role of similar activities or sectors in the regional or national economy. The LQ technique can be divided into two, namely static LQ (Static Location Quotient, SLQ) and dynamic LQ (Dynamic Location Quotient, DLQ), this LQ technique helps to determine the export capacity of the regional economy and the degree of a

sector. In this method, the economic activities of a region are divided into two groups, namely: a. Sector activities that serve the market in their own region and outside the region. This sector is called the base sector b. Sector activities that serve the market in their own region. This sector is called the non-base sector or the local sector. The disadvantage of the LQ method is that this criterion is static because it only provides an overview at a single point in time. This means that this year's base (flagship) sector will not necessarily be the flagship in the future, on the contrary, sectors that are not the base at the moment may be superior in the future. To overcome the weakness of LQ so that it can be known that repositioning or sectoral changes can be known, a variance analysis of LQ called DLQ (Dynamic Location Quotient) is used, namely by introducing the growth rate assuming that each sectoral added value or GDP has its own average annual growth rate during the period of the initial year and the years that are spaced apart (Tutupoho, 2019). Some of the studies that have discussed the sectoral economy in Indonesia include the leading sectors of mining and quarrying and the manufacturing in South Minahasa (Mangilaleng et al., 2015), leading sector of the manufacturing in Sidoarjo (Muljanto, 2021) as well as leading agriculture, forestry and fisheries sectors as well as the electricity and gas sector in Jambi (Fabiany, 2021) where the calculations in these studies use the same analysis method, namely Location Quotient (LQ) and Dynamic Location Quotient (DLQ).

Regional inequality

Regional inequality can occur on a national and local scale. Regional inequality is interesting to discuss because regional inequality is one of the impacts of the beginning of development itself and if it is not overcome immediately, it will have a bad impact on the areas that are left behind (Aprianoor & Muktiali, 2015). Development inequality between regions is a common aspect in the economic activities of a region. This inequality is basically caused by differences in the content of natural resources and differences in demographic conditions in each region. Some of the main factors that cause inequality between regions are, differences in natural resource content, differences in demographic conditions, lack of smooth mobility of goods and services, concentration of regional economic activities, allocation of development funds between regions. Development inequality has had various impacts on the region and society. The impact of the inequality is that many areas are still lagging behind in development, strategic and fast-growing areas have not developed, border and remote areas are still underdeveloped, and development gaps between cities and villages (Islami & Nugroho, 2018)

RESEARCH METHODOLOGY

In this study, 2 analysis methods will be used, namely, first, the Williams index analysis which will describe the level of income inequality in Cilacap Regency during the period 2015-2022 which will explain high, medium and low inequality. Second, the location quotient analysis combined with the dynamic location quotient will form the results of 4 quadrants that will describe the classification of 17 business fields consisting of superior, potential, developing and underdeveloped.

1. Location Quotient

The Location Quotient analysis aims to determine the representation of business specialization in economic development in the study area, as well as evaluate employment, distribution channels, market access and factors that affect total output and business growth (Miller et al., 1991).

a. Location Quotient/LQ

The LQ analysis is formulated as follows (Kuncoro, 2019):

$$SLQ = \frac{Xij/Xj}{Xiy/Xy}$$

Description:

Xij : Sector i in Cilacap Regency GDP
Xj : Total GDP of Cilacap Regency
Xiy : Sector i in the GDP of Central Java Province
Xy : Central Java Province's GDP

The value of the Location Quotient (LQ) analysis results is (Fracasso & Vittucci Marzetti, 2018; Praja, 2023), LQ>1: shows that the contribution of the business field is greater at the regional level because production exceeds consumption needs, causing a surplus and has the potential to be exported outside the region. LQ=1: shows that the contribution of the business field is balanced at the regional level because it can only meet consumption needs. LQ<1: shows that the contribution of the business field is smaller at the regional level because production is not able to meet consumption needs, thus causing a deficit that has the potential to be imported from outside the region. To be able to find out the factors of shifting business fields and sub-fields from time to time, it can be analyzed using Dynamic Location Quotient (DLQ).

b. Dynamic Location Quotient/DLQ

DLQ analysis can be measured by formulation (Kuncoro, 2019):

$$DLQ = \left[\frac{(1+Xij)/(1+Xj)}{(1+Xiy)/(1+Xy)}\right]^{t}$$

Then from the LQ and DLQ values, 4 quadrants will be formed as follows (Taufiqqurrachman & Jayadi, 2023): **The Leading Sector** is a sector that has a surplus of production so that it has a greater role (output) (LQ>1) and has the potential for a prospective growth rate (DLQ>1). **Potential Sectors** are sectors that experience production surpluses so that they have a greater role (output) (LQ>1) but have the potential for an unprospective growth rate (DLQ<1). **The Developing Sector** is a sector that experiences a production deficit so that it does not have a greater role (output) (LQ<1) but has the potential for a prospective growth rate

(DLQ>1). **The Disadvantaged Sector** is a sector that experiences a production deficit so that it does not have a greater role (output) (LQ<1) and has the potential for an unprospective growth rate (DQL<1).

2. Index Williamson

The Williamson Index analysis links several variables that aim to analyze the gap between regions (Elpisah et al., 2021). The following is a description of the analysis (Taufiqqurrachman & Jayadi, 2023)

$$IW = \sqrt{\frac{\sum_{i=1}^{I}(Yi - \overline{Y})^2 . \frac{fi}{n}}{\overline{Y}}}$$

Description:

Yi : GDP Per Capita of Cilacap Regency
Y : GDP Per Capita of Central Java Province
fi : Number of Population of Cilacap Regency
n : Number of Population of Central Java Province

The value of the Williamson Index (WI) analysis results is (Elpisah et al., 2021), The measure of income inequality to analyze how large the gap between regions is by calculating the Williamson index. The magnitude of the Williamson index states that the magnitude of the IW is 0 < the IW < 1; IW = 0, means that the development of the region is very even; IW = 1, means that the development of the region is very uneven; IW < 0, means that regional development is getting closer to equity; IW < 1, means that regional development is getting closer to lame. The value of the analysis results is based on 3 categories, namely the low regional inequality category with an IW value of < 0.3, the medium regional inequality category with an IW value of 0.3-0.5 while the high regional inequality category with an IW value of > 0.5 (Taufiqqurrachman & Jayadi, 2023).

RESULT AND DISCUSSION

1. Location Quotient

Cilacap Regency is one of the regency/city administrative areas in Central Java Province which has 24 sub-districts, this study aims to identify superior sectors and the level of regional inequality in Cilacap Regency in the 2015-2022 period. The results of the Location Quotient (LQ) analysis use 2 combinations of calculations, namely Location Quotient and Dynamic Location Quotient so that it will form a quadrant with 4 sectoral classifications. Table 1 shows that 2 sectors, namely Mining and Quarrying, Manufacturing are the base sectors due to the LQ value of > 1. This shows that the total output in the two sectors has been able to meet the needs (demands) of Cilacap Regency and can be traded outside the region so that it can be used as input material for production in other regions. In contrast to the other 15 sectors that are non-base sectors due to the LQ value of < 1, this indicates that the total output has not been able to meet the needs (demand) of Cilacap Regency so that supply from other regions is needed to meet the needs and stabilize prices in the region.

Table 1. Location Quotient of Cilacap Regency in 2015-2022

Industry	2015	2016	2017	2018	2019	2020	2021	2022	Average LQ		DLQ		Clasification
A. Agriculture, Forestry and Fishing	0.51	0.52	0.54	0.54	0.55	0.59	0.58	0.57	0.55	Non-Basis	9.68	Positive	Developing
B. Mining and Quarrying	1.32	1.11	1.11	1.15	1.19	1.33	1.35	1.40	1.24	Basis	4.93	Positive	Leading
C. Manufacturing	2.00	2.02	2.01	2.00	1.98	1.93	1.94	1.94	1.98	Basis	0.03	Negative	Potential
D. Electricity and Gas	0.62	0.64	0.67	0.68	0.71	0.77	0.77	0.77	0.70	Non-Basis	4.54	Positive	Developing
E. Water Supply, Sewerage, Waste Management and Remediation Activities	0.50	0.50	0.51	0.53	0.54	0.61	0.61	0.65	0.56	Non-Basis	8.39	Positive	Developing
F. Construction	0.45	0.46	0.47	0.48	0.50	0.54	0.54	0.54	0.50	Non-Basis	5.29	Positive	Developing
G. Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	0.35	0.35	0.36	0.38	0.38	0.43	0.43	0.42	0.39	Non-Basis	9.89	Positive	Developing
H. Transportation and Storage	0.76	0.76	0.77	0.79	0.80	0.91	0.91	0.99	0.84	Non-Basis	1.67	Positive	Developing
I. Accommodation and Food Service Activities	0.31	0.30	0.31	0.32	0.32	0.37	0.37	0.36	0.33	Non-Basis	6.29	Positive	Developing
J. Information and Communication	0.39	0.39	0.41	0.43	0.47	0.48	0.47	0.47	0.44	Non-Basis	6.05	Positive	Developing
K. Financial and Insurance Activities	0.28	0.28	0.29	0.30	0.31	0.34	0.34	0.34	0.31	Non-Basis	5.12	Positive	Developing
L. Real Estate Activities	0.45	0.45	0.46	0.48	0.49	0.54	0.54	0.54	0.49	Non-Basis	4.45	Positive	Developing
M,N. Bisnis Activities	0.40	0.39	0.40	0.41	0.42	0.46	0.46	0.46	0.43	Non-Basis	1.50	Positive	Developing
O. Public Administration and Defence; Compulsory Social Security	0.38	0.38	0.39	0.40	0.40	0.44	0.44	0.45	0.41	Non-Basis	2.48	Positive	Developing
P. Education	0.36	0.36	0.37	0.38	0.40	0.43	0.43	0.44	0.40	Non-Basis	2.78	Positive	Developing
Q. Human Health and Social Work Activities	0.38	0.38	0.40	0.42	0.43	0.45	0.46	0.46	0.42	Non-Basis	6.81	Positive	Developing
R,S,T,U. Other Services Activities	0.44	0.4	0.44	0.45	0.47	0.51	0.52	0.51	0.47	Non-Basis	7.25	Positive	Developing

Source: Data processed 2024

The results of mining and quarrying commodities that are significantly conjugated include mountain stones in Jeruklegi, Majenang and Dayueuhluhur sub-districts which

are the supply of raw materials for the manufacture of PLTU Breakwater. River sand and stone sand found in the Serayu river in Kesiguhan and Maos Districts are also found in the Citanduy river in Wanareja and Kedungreja Districts. Gold with a content of 5-8 grams/ton is found in the Sadahayu hills in Majenang District and coal with a content of 3,724-3,890 cal/g is found in Kesugihan and Karang Pudung Districts. The mining and quarrying sector of Cilacap Regency will still have the potential to have a comparative advantage compared to the Java Tangah region in the coming period. This is inseparable from the area of limestone mining land which is still 80 percent left and other commodities such as mountain stone, river sand, stone sand, gold and coal which are projected to still make a significant contribution to the GDP of Cilacap regency and Central Java province for several years to come (Raharjo & Jaenudin, 2023; Sasono et al., 2021).

The Manufacturing is a sector that contributes very dominantly to the total average output of Cilacap Regency's GDP for the 2015-2022 period of 67.49 percent. There are several supporting factors for the Manufacturing sector, including 46,271 types of micro industries and the third largest coconut sugar production center in Central Java. The oil refining industry has contributed 63.34 percent of the total labor absorption (Diskominfo Cilacap, 2022). The quadrant in the Location Quotient (LQ) analysis in table 2 has produced 4 categories, namely Superior, Potential, Developing and Disadvantaged Sectors. The results of the Cilacap Regency LQ Quadrant are:

Table 2. Location Quotient Quandran[U1][ft2] Cilacap Regency

	DLQ > 1	**DLQ < 1**
LQ > 1	**Leading Sector**	**Potential Sector**
	B. Mining and Quarrying	C. Manufacturing
LQ < 1	**Developing Sector**	**Disadvantage Sector**
	A. Agriculture, Forestry and Fishing D. Electricity and Gas E. Water Supply, Sewerage, Waste Management and Remediation Activities F. Construction G. Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles H. Transportation and Storage I. Accommodation and Food Service Activities J. Information and Communication K. Financial and Insurance Activities L. Real Estate Activities M,N. Bisnis Activities O. Public Administration and Defence; Compulsory Social Security P. Education Q. Human Health and Social Work Activities R,S,T,U. Other Services Activities	

Source: Data processed, 2024

In the category of leading sectors, namely mining excavation supported by oil, gas and geothermal mining; coal and lignite development; metal ore mining and other mining and quarrying that have been able to fully contribute 100 percent with soil/sand commodities which are the main raw material supply in cement production. The mining and quarrying sector in Cilacap Regency is developing because there are several companies that process metal ore (iron sand), including PT Aneka Tambang in Cilacap.

The results of the Dynamic Location Quotient analysis aim to see the development of the sector at the beginning of the year and the end of the year, so that it shows positive and negative growth. In all sectors, showing a positive trend, this shows that the development of the sector in the 2015-2022 period shows significant growth. Except for the Manufacturing sector which shows negative results, this condition will have an impact on the economy of Cilacap Regency because 65 percent of the total GDP is supported by the sector which is experiencing a decline.

This condition is due to the majority of workers working in the Manufacturing sector, the largest labor absorption is in the oil refining industry sub-sector, but the contribution of labor absorption in the sub-industry has decreased every year in 2018 by 71.01 percent, in 2019 by 69.66 percent, in 2020 by 64.10 percent, in 2021 by 62.85 percent and in 2022 by 63.34 percent. The final result of this analysis is to combine the results of Location Quotient and Dynamic Location Quotient so that it will form 4 quadrants where the classification of the leading sectors is mining and quarrying, while the potential sectors are the Manufacturing while the remaining 15 sectors are in the classification of the Developing sector and there are no hidden sectors in the quadrant

2. Index Williamson

Based on the results of the Williams index analysis in Figure 3, it shows that the level of income inequality in Cilacap Regency in 2015-2022 is in the category close to income equity, the condition can be seen in the Williams index number which always experiences a significant decrease in the index number because it is close to zero and vice versa. The decrease from 2015 was 0.31 to 0.17 in 2022. The decrease in inequality is supported by the per capita income of the community which is always increasing, this can be seen in the results of the LQ analysis or that the mining, quarrying and Manufacturing sectors are very dominant where both are able to provide a multiplier effect in terms of income because they dominate in the absorption of labor-intensive labor in the formal and informal sectors.

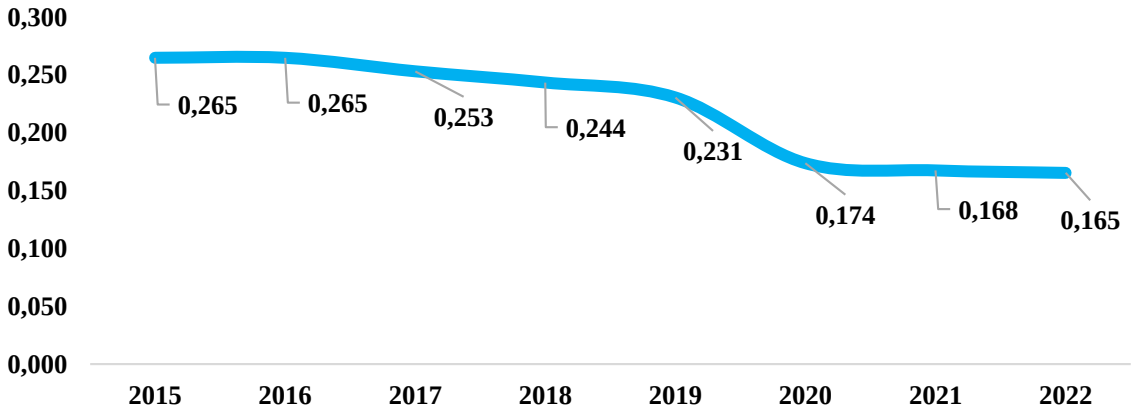

Figure 3. Results of the Williamson Index of Cilacap Regency in 2015-2020
Source: Data processed, 2024

The reduction in income inequality has given an idea that the development of development in Cilacap Telai Regency achieved high growth in that period so that it was able to face all challenges and problems of economic inequality. This achievement is also able to describe the level of community welfare which can be measured from the increase and equal distribution of per capita income. The results of the Williams index value of Cilacap Regency decreased during 2015-2022, including in the category of low regional economic inequality due to the IW value of < 0.3

CONCLUSION

Based on the results of this study, it aims to determine the regional economic inequality and calcification of 17 sectors that have been analyzed using 2 methods, namely Location Quotient (LQ) and Williamson Index (IW). The results of the Location Quotient (LQ) analysis show 4 categories, namely *Excellent:* Mining and Quarrying, *Potential:* Manufacturing, *Developing:* consisting of 15 other sectors and *Laggard:* no sector is in this category. The results of the Williamson Index (IW) analysis show a decrease in value from 0.31 to 0.17 and are included in the category of low regional economic inequality because the IW value < 0.3. Based on the results of the analysis of the Location Quotient (LQ) and the Williamson Index (IW), the results of the research have shown in determining the classification of 17 sectors and economic inequality in the Cilcap Regency area, so it is recommended to the next researcher to be able to develop the results of this study, including in more detail on the sub-sectors using the same analysis, namely the Location Quotient (LQ) and being able to calculate the relationship between the sector and the Input-Output (I-O) analysis and calculating regional economic inequality with other methods including the Gini Index.

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