An Insight on How to Attain a Sustainable Future from the Regional Economic Development Perspective on the Management and Allocation of Additional Budget (DAU) to Indonesian's Regional Areas

Ilham Akbar Eka Yudha[1]
[1] Master's Student, Regional Planning and Development, Postgraduate Faculty,
Hasanuddin University, Indonesia.

Haliah Imran[2]
[2] Professor in Regional Accounting Planning and Development, Hasanuddin University, Indonesia.

Idayanti Nursyamsi[3]
[3] Professor in Human Resources and Development, Hasanuddin University, Indonesia

Abstract:- Regional development and its closely related topical subject, regional economic development, has attracted the interest of economists, geographers, planners, and regional scientists for a long time. And, of course, it is a field that has developed a large practitioner cohort in government and business agencies from the national down to the state and local levels. In planning for cities and regions, both large and small, economic development issues now tend to be integrated into strategic planning processes. This paper tries to give a rationale that regions now have become the dominant factors for not only economic growth, but also part of the regional development as a whole to build a sustainable future for not only regional but also urban areas. Thus, it's trying to change the mindset of an Indonesian authority that manages the Indonesian regions to be more independent, while at the same time shedding extra light on the policymaker in Jakarta.

***Keywords*:-** *Regions, Regional Development, Regional Economic Development, The Planning Process, Mindset, Indonesian Authority, Policymaker, Sustainability*.

I. INTRODUCTION

For at least the last 50 years, scholars from various disciplines have theorized about the nature of regional economic development, developing a range of models seeking to explain the process of regional economic development, and why it is that regions vary so much in their economic structure and performance and how these aspects of a region can change dramatically over time. Regional scientists in particular have developed a comprehensive toolkit of methodologies to measure and monitor regional economic characteristics such as industry sectors, employment, income, the value of production, investment, and the like, using both quantitative and qualitative methods of analysis, and focusing on both static and dynamic analysis. The *'father of regional science'*, Walter lsard, was the first to put together a comprehensive volume on techniques of regional analysis (Isard, 1960).

II. REGIONAL ECONOMIC DEVELOPMENT BEST PRACTICE

When considering best practice approaches to regional development, it is important to identify how regions can improve the competitiveness of assets, the inward flow of capital, information to develop knowledge, and linkages with external economies. No two regional economies are the same, so it is important for regions to fully understand where to strategically intervene and make improvements and decide what practices work best. By adopting best practices, regional economies can tap the knowledge and experience of others and adapt different practices to fit local situations.

As we will keep emphasizing throughout this paper, one of the difficult challenges facing those responsible for regional development is to know how to develop and sustain competitive performance within the context of regional economic development strategy formulation and planning require specific skills in regional analysis and evaluation and needs to use best practice processes. It is not unusual for regions and the people in agencies responsible for regional development strategy planning not to have the requisite levels of skills that are necessary to both conduct the analyses that are needed and to design the strategy frameworks that are appropriate and which represent the best practice approaches and methodologies to develop strategy and formulate plans and implement them in the pursuit of the development of a competitive region and development that is sustainable.

For example, in those parts of the world that are characterized as more centrally planned economies, such as Vietnam and Indonesia in South East Asia, regional planners, economists, and governance specialists often struggle to understand how to restructure provincial and regional economies to operate under open and competitive market conditions. An even more difficult challenge is to identify how to apply a range of best practices to improve the performance of regional economies. Many of these practices are foreign and clash with previous governance structures and institutional cultures. As Hamel and Prahalad (1994) say, there is much 'unlearning' to be done before regional institutions and businesses in those circumstances can understand how to adapt and apply best practices to achieve more sustainable regional development outcomes.

The end of the Bretton-Woods agreement in 1973 removed gold as a standard for currencies and marked the floating of national currencies and an era of globalization, finance and capital emerged. There was a shift in economic thought away from heavy public intervention in industry policy towards a focus on value-adding and the application and development of technologies to enhance production processes.

At this time, there was a focus on building technology, science, and innovation parks as the catalysts for new-age industrial development. Much of the thinking on this in the 1970s was developed by the Stanford Research Institute, where it was recognized there was a close relationship between industry and research establishments in Silicon Valley (Hall and Markusen 1985; Saxenian 1994) that spawned a large number of technology-based industries. Many parts of the world actively pursued policies of technology-led development, some of which were successful, but many had something of a 'cargo-cult' philosophy based on the sponsorship of technology parks.

However, despite this early experience it needs to be stressed how important technology-led regional development has been in the postindustrial era of the information economy. About this time there was also a shift of focus from comparative advantage to competitive advantage as monetarism began to influence macroeconomic policy. The older notion of comparative advantage was derived from economic theory on international trade which suggested that a nation or region would specialize in an industry in which it had a comparative advantage related to its particular resource endowment which provided a factor cost advantage in producing a particular good. Later on, the emphasis changed towards the notion that regions would need to develop a competitive advantage that necessitated not only a factor cost advantage, particularly related to productivity and quality of goods and services that are traded, but also concerning other factors that enhance business development and operations, and minimize risk. More recently, economic development and planning have promoted collaborative advantage where firms and regions are encouraged to collaborate in competition for strategic advantage, particularly through partnerships and alliances.

During the late 1980s, social issues concerning disadvantaged groups began to re-emerge as an important element of public sector policy. During this time, equal opportunity, workplace practice safety, and other social infrastructure issues had a significant influence on public policy related to regional economic development. At this time many governments were also heavily involved in offering generous incentives for businesses to relocate or set up regional headquarters. Enterprise zones were developed in the United Kingdom and Europe and export processing zones began to emerge in Asia as a means of attracting industries. The 1980s also saw the rapid expansion and development of major new corporations. Significant job losses began to occur in the manufacturing sectors as production by major nationals and multinationals began moving offshore to cheaper sources of labor and sometimes less regulated economies in South America and Asia.

The extravagances of the capital markets splurge in the 1980s, followed by the 1987 stock market crash and a 1989 recession, led to the next paradigm shift with a focus on the principles of sustainable development. In the early 1990s, two parallel events were occurring that would have a significant impact on economic thought and the evolution of best practices. First, globalization was continuing to have a major impact on the economic restructuring of regions, which could be both positive and detrimental to their performance and possible futures. With this change, there emerged a new focus on regions rather than just on national economies, as governments emphasized the skill requirement of labor (i.e., labor quality) and technology-driven investment. Second, issues relating to sustainable development and quality of life began to have a significant influence on local economic development and policy.

But this was also the age of economic rationalism with the corporatization and privatization of public assets and functions. However, there was a clash between globalization and increasing community concerns about sustainability issues and quality of life and how to achieve sustainable development. That has led to the emergence of a new paradigm in economic development thinking. What appears to be emerging is the greater integration of economic, social, and environmental factors into decision-making processes about investment and use of limited resources. The United Nations 1992 Rio Declaration and 1997 Tokyo Greenhouse Gas Accord are bringing new dimensions of thought into the economic development processes.

The current age is thus one of rapid transition, redefining best practices in economic development in the context of this new paradigm of sustainable development. This poses formidable challenges for regional economic policymakers as they seek to formulate strategy in a new environment of rapid change and uncertainty as well as a concern for achieving sustainable development. Globalization has also resulted in the emergence of an increasingly borderless society with the greater unrestricted movement of information, travel, and currency between countries. Greater levels of transparency and standardization are occurring in both processes of government and business. These changes are reducing the importance of the nation-state and increasing the focus on major cities and regions as the centers and engines of economic growth (Knight and Gappert 1989; Ohmae 1995; Salazar and Stough 2006).

III. THE RISE OF REGIONS

Regions, particularly some of the world's larger metropolitan regions, are now seen as the dominant focus for the growth of employment, investment decisions, and distribution networks in the new global marketplace. For example, over 85 percent of employment growth in the United States in the first half of the 1990s had occurred in larger metropolitan cities. The metropolitan region increasingly is the geographic unit of analysis at which competitive economic activities take place, and increasingly this is where prosperity is being generated.

In many parts of the world now, regions are not defined by political boundaries but cut across local and international jurisdictions to encompass the broadest definition of contiguous economic activity. Most businesses do not confine their economic activity to a specific jurisdictional boundary, and when the form of their organizational dependence is industry clusters, important economic inter-relationships are even more likely to spread across jurisdictional boundaries.

Given the importance of changes in the world economy as determinants of regional performance, it is useful to consider the links between national and regional economies. In terms of policy, Prudhomme (1995) illustrates the absence of a link between national outlook and regional outcomes. He argues how regional policy, through its impacts on regions, has wider economic effects, and that macroeconomic policies, through economic outcomes and their spatial expression, have implications for regional performance. These interrelationships may appear obvious, but the reality of this connection is rarely explicitly accounted for in policy formulation. Regardless of national economic performance and policy intentions, macroeconomic controls and interventions tend not to address spatial inequalities that arise from the regional structure and inter-regional patterns.

Prudhomme (1995) notes what is lacking in macro-economic planning as it affects regions in these terms:

… The standard macro-economist view of the economy ignores cities, and more generally space. It tries to understand what is produced, how it is produced, and for whom it is produced. But it does not care about where it is produced…It considers a country as a geographically undifferentiated whole. As a consequence, macroeconomic policies, which are based on this understanding, also ignore cities and regions…" (p. 731).

IV. LESSONS LEARNED AND BEYOND

Following the notions above, the challenge now facing economic development planners is how to formulate economic policy that will respond to global dynamics and sometimes (or often) a national vacuum in macro policy towards regions in many countries. At one time regions were protected from outside competition, and to some extent, their economies were able to be manipulated by national governments. But this is no longer the case as the economic rationalism pursued by many national governments has left many regions to fend for themselves as in the case of Indonesia.

Several Indonesian authorities in the regions continue to look for higher levels of government for support and resources to provide economic direction and investment to stimulate economic development. But unfortunately, many of the policymakers in Jakarta fail to understand that globalization has left the Government of Indonesia (GOI) largely devoid of powers to apply economic and policy mechanisms to enhance the competitiveness of regional economies. Therefore today it is more and more up to regions to develop and use their own devices to compete internationally to survive. To do so regions need first to understand what the factors are that set the dynamics of the emerging new economic age of the 21st century.

The emerging 21st century shows that the issue of sustainability and the concept of sustainable development are concepts now widely accepted as desirable objectives to guide urban and regional development and planning and they are also going to become more important as principles to consider in regional economic development strategy. The most commonly cited definition of sustainability is the Bruntland Commission Report, Our Common Future (Bruntland Commission 1987), which placed the concept of sustainable development and *'futurity'* firmly on the international agenda by defining it as:

…development that meets the needs of the present without compromising the ability of future generations to meet their own needs … [it is] not a fixed state of harmony, but rather a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development and institutional change are made consistent with the future as well as present needs" (p. 43).

This definition refers to a specific type of further and future development of society which essentially stresses that development should be such that natural resources are not exploited; rather they are used in a manner that ensures continuous use into the future (van Lier, 1994).

The Bruntland Commission statement received some criticism due to a failure to address the critical distinction between development and growth. Often the development is equated with growth and these terms have been wrongly used interchangeably, as they are not synonymous. For example, Kozlowski and Hill (1993) argue:

…Development is the realization of specific social and economic goals that may call for a stabilization, increase, reduction, change of quality, or even removal of existing uses, buildings, or other elements, while simultaneously (but not inevitably) calling for the creation of new uses, buildings or elements. It must be noted that in each case development should lead to progress, expressed primarily by welfare improvements in the communities involved and that it will occur through specific changes…" (p. 4).

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V. CONCLUSIONS

Because of the changing role of regional economies within nations and the impacts of globalization, and given the context of contemporary concerns about how to achieve sustainable development, a set of new considerations are now being taken into account in formulating and implementing economic development strategies for regions. And in the contemporary era of the global economy, increasingly the pursuit of regional economic development also needs to take place within the context of principles for achieving a sustainable future.

A sustainable future is achievable only if there is a change in the mindset of an Indonesian authority that manages the Indonesian regions to be more independent. This mindset change would only be possible if at the same time, the policymaker in Jakarta, give more independency to regional areas to manage and devise their policy without interruption from the central government. Even though it is a difficult thing to do, to strive in the incoming 22nd century, this becomes the first order that needs to be realized before the end of this millennium.

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