

## Regional development, infrastructure and decent work: An IRSAM analysis

Topic: Why Do Regions Matter? Recent Developments in Interregional I-O Analyses II

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This paper intends to assess the impact of key public policies on regional development on different dimensions of decent work including quantitative and qualitative aspects of employment, with the help of an Inter-Regional Social Accounting Matrix (IRSAM). The analysis will focus at provincial level by taking into account the economic corridors identified by the State, and based on the potentials and strategic roles of main regions selected within the IRSAM.

Ex-ante impact analysis using IRSAM provides insight into how to enhance different types of regional programmes, i.e. simulations regarding regional economic growth potentials, via different types of investment in the development of main regional sectors and how such investments relate to higher regional growth and regional employment creation by job profiles. The backward linkages by main region reflect the impact when injections are made in each of the five regions. Each column of linkages has two levels. The first measures impact on the region itself or partial backward linkage (main diagonal blocks) and the cross-regional impacts (off diagonal blocks), the second level measures the impact within a region economic activity and the cross-account impacts on Factors of Production and Institutions.

As a first step, the existing Indonesian IRSAM for 2005 had to be checked, validated, expanded and restructured. After adjusting the existing IRSAM to the needs of the study, two satellite accounts were built which were then attached to the IRSAM: an employment satellite account including quality of employment data, as well as a construction account showing construction sub-sectors, as construction plays a key role in inter-regional development.

With regard to decent work, only three indicators have been built due to regional data limitations: Precarious work, Informal Employment within each Region and Employment by status in terms of self-employment, paid and unpaid worker. The criteria suggest that a Decent Work sector should show very low or no precarious work, low or no informal labour and very low or no un-paid work.

The following conclusions can be drawn from the multiplier analysis and the simulations:

- Low degree of dependence of regions: Regions are mostly independent of each other's economic evolution and geographical proximity.

- The three least developed regions, Kalimantan, Sulawesi and East Indonesia show some degree of economic interdependence, but are more economically dependent on the two richer regions.

- The Java & Bali region derives comparatively more benefits, albeit small, as a result of the expansion of the three least developed regions and even Sumatra.

- Highest economic impacts have: 1) food products 2) government services and 3) restaurant and hotels.

- Least important: 1) transport services (indication that inter-regional transport facilities are lagging behind) 2) construction, except labour based

- Inter-regional migration at both ends is an issue and needs to be tackled.

- Regions with rich resources endowment (natural or tourism) have a clear economic advantage in relation to the resource poor regions, e.g. oil and refinery in Kalimantan and Sumatra.

- There is an unequal exchange among regions (primary producers versus transformers)

The labour market analysis led to the following conclusions:

• Some sectors create a lot of employment, but of bad quality (e.g. paddy), and vice versa (e.g. petroleum, air transport) – there is a need for a more balanced strategy

• Importance of precarious work, informal employment is different between regions (incl. gender dimension) ; high importance in the most advanced region, Java & Bali because of labour migration

• Infrastructure investment can create jobs depending on technology choice (e.g. labour-based) and is key for better regional connectivity and long term development

Brief, there is a high potential to strengthen the existing inter-regional links, but in a more balanced way with regards to goods and services, as well as to labour. It would thus be helpful creating new links by developing vertical production lines across regions, e.g. producers in resource rich regions and processing in resource poor regions by considering their comparative advantage, in terms of natural resources or advantages related to developed economic basis of industrial or services kinds. This strategy could be coupled with a connectivity strategy. Moreover, employment should be considered from a development perspective: a balance has to be found between low productive and formal jobs. There is therefore a need for integrated policies looking into education, industrial policies, but also infrastructure investment.