Local Superior Commodities, Regional Specializations and Regional Economic Contributions

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Abstract

Purpose – The purpose of was paper is to do a conceptual analysis of the determination of local superior commodities using the location quotient technique and an analysis of the contribution of superior products to the regional economy. The results of determining superior commodities are used to determine regional product specialization and its contribution to the regional economy. Local superior commodities are dynamic and selected based on the potential to increase regional income. **Research design, data, and methodology -** This study used location quotient techniques and regional economic analysis with annual data rocks, production data in the agriculture, plantation, fishery and forestry sectors. Local superior commodities are calculated to contribute to regional economists. **Result** – The findings obtained showed the location quotient technique can determine local superior commodities and local superior commodities contributed positively to the regional economy. The test results were carried out in Jember Regency, East Java Province, Indonesia. **Conclusion** – The ass well main commodities of Jember Regency are tobacco. Tobacco commodities contribute positively to the regional economy, they were not significantly due to affected by the low of commodity prices in harvest. The low prices indicate the strength of the weak bargaining position of farmers towards the market.

Keywords: Superior Commodities, Regional Specialties, Location Quotient.

JEL Classifications: C32, D80, P35, Q18.

1. Introduction

Increasing in the industrial market segment and services in the Asian region led to a decline in the performance of the agricultural sector(Briones & Felipe, 2013). There are five prominent agricultural economic conditions in Asia; First, a decrease in the number of labor in the agricultural sector at a time when demand for agricultural production is increasing. Second, increasing the productivity of labor in the agricultural sector in Asia. Third, increasing land productivity in Asia. Fourth, the impact of agricultural technology significantly increases crop yields. Fifth, the changes in the

type of agricultural production in products with high selling value(Briones & Felipe, 2013). The agricultural growth is a prominent feature in economic growth in the Asian region, especially Indonesia, Malaysia, and Thailand (Wickramasinghe, 2017). However, not all countries experience significant agricultural sector growth, such as Bangladesh, India, Pakistan and Philippines experience slow agricultural growth compared to other countries in Southeast Asia(Briones & Felipe, 2013).

The paradigm of modern economic development and in the context of fulfillment the need for food madethe agricultural system directed towards a system that is capital intensive, more productive, and more integrated with other sectors through the market(Byerlee, Janvry, & Sadoulet, 2009). Farmers on their small scale will lose their sources of income and employment, and many of them will leave the agricultural sector completely(Vanloqueren & Baret, 2009). This phenomenon occurs at this time in stages where farmers wanted the next generation to work in other sectors because they feel the future uncertainty of the agricultural

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sector(Rigg, 2006). Gradually, large-scale farmers can integrate modern market systems with higher income expectations and better technology. Other farmers will quit agricultural work and seek employment opportunities in other sectors(Liu, 2017).

The decline in the number of workers in the agricultural sector occurs in many rural areas(Vanloqueren & Baret, 2009). There is a positive and significant influence on the development of state infrastructure on the productivity of the agricultural sector, especially related to water infrastructure and transport infrastructure with a large impact(Puig-junoy & Pinilla, 2008). The infrastructure development variables have a positive but in significant effect on the agricultural sector, while irrigation variables show significant results and have a positive effect on rural agriculture(Haughwout, 2002). The context of economic development in the rural agricultural sector is directed at spurring the equitable distribution of irrigation development so that agricultural production increases as well as road infrastructure as a basis for distributing agricultural production and optimizing the utilization of regional potential, especially in the agricultural sector(Vanloqueren & Baret, 2009). Rural areas are identified as the main suppliers of primary agricultural products. The efforts to encourage the rural economy need to recognize regional potential, especially in identifying the main commodities produced by the region. The identification of local superior commodities will drive the regional economy and local economy(Christofakis & Gkouzos, 2013). Strategies to encourage regional economies with specialization so that they can increase market opportunities to gain access to global markets(Satybaldin, Nurlanova, & Kireyeva, 2016).

Effort to improve the regional economy can focus on the specialization of regional products(Ascani, Crescenzi, & Iammarino, 2012; Puig-junoy & Pinilla, 2008). The synergy in the development of regional specialization as an effort to provide environmentally friendly agricultural products to increase consumer confidence by emphasizing training and education(D.H. Kim, Choi, & Kim, 2013). Giving education to the community from an early age will produce entrepreneurs for the younger generation(Cahyono, 2017). Provision of specialization is the need to achieve the following conditions: the creation of special conditions in the development of regional specialization products; identification and development of products with competitive advantages; the focus of regional development from the point of view of regional products through coordination of long-term interactions(Satybaldin et al., 2016). The role of local government in the development of regional products is by providing agricultural management that can synergize the supply of agricultural products with direct demand(D. Kim, Park, Lee, & Lee, 2016)

Local superior commodities are dynamic and selected based on the potential to increase regional income, the value added product, and absorb labor(Kleinau & Lin-Hi, 2014). Determination of local superior commodities based

primarily on domestic resources produced by the area (Alhowaish, 2015). Filled by(Deller, 2011) the foundation of agricultural development policies by developing local superior commodities based on the diversity of resources, institutions, and local products(Dobkin, 2015). The main criteria and considerations in selecting superior commodities include: 1) having competitive export and import substitution opportunities; 2) having a potential resource base that is relatively ready to be utilized; 3) technological, management and institutional breakthroughs; 4) having the potential to increase added value through post-harvest processing and handling; 5) providing the employment opportunities for the community in the process of production, processing, and services(Saleh, Surya, Musa, & Azis, 2017).

2. Theoretical background and literature review

2.1. Regional economy

Regional economics is the subject of specific economic sciences discussing borders and grouping economic regions from a region or country by looking at natural resources and human resources (Frenken, Van Oort, & Verburg, 2007). Regional economic discusses and analyzes a region as a whole by considering the diverse potential that can be developed to accelerate regional economic growth. Limitation in regional economic discussion emphasizes economic goods(Ascani et al., 2012). In general, regional economic development theories highlight that development potential and competitive advantage are highly localized elements (Ramli, 2015). Therefore, what must be directed by the development strategy is to adopt a balanced policy built on local strengths and try to reduce local weaknesses as the only way to eradicate economic activities in Indonesia in a sustainable manner(Pike et al., 2006).

2.2. Leading local commodities

Leading commodities are primary products of physical considerations(soil and climate conditions) as well as socio-economic and institutional(technological mastery, human resource capacity, infrastructure, socio-cultural conditions) to be developed in an area(Alhowaish, 2015). Determination of regional superior commodities is one of the key factors for regional economic development(Pongi & Antara, 2015). Many methods are used in determining regional superior commodities such as typical products, land area, number of businesses, commodity productivity, employment, marketing aspects, product quality and price excellence and so on(Fauza, 2014). Substitution of inferior product becomes a focus on superior products to increase production and increase people's income(Sonobe, Hu, & Otsuka, 2004).

3. Research Methods

3.1. Location quotient(LQ)

Location Quotient(LQ) is used to determine the base commodity of an area which is a local product area (Alhowaish, 2015). Location Quotient(LQ) Analysis is a comparison of the magnitude of the role of a sector / industry in an area towards the magnitude of the role of the sector and industry nationally(Bendavid-Val, 1991). Location Quotient is used to determine/search for agricultural superior commodities in Jember Regency Indonesia by using agricultural production data for the 2013-2017 agricultural sector. This LQ analysis tool could see which commodities are superior in Jember Regency compared to East Java Province. In general, LQ is formulated as follows:

$$LQ = \frac{\dfrac{A_{ij}}{AJ}}{\dfrac{A_{in}}{AN}}$$

Information:

A_{ij} = Amount of commodity production I in Jember Regency.

AJ = Total commodity production in the agricultural sector in Jember Regency.

A_{in} = Total production of commodities Iin East Java Province.

AN = Total commodity production in the agricultural sector in East Java Province.

After calculating, the criteria for determining superior commodities by taking into account the LQ value obtained, it will be obtained: if the value of a commodity is LQ>1, then the commodity can be said to be a superior commodity. If the value of a commodity LQ<1, then the commodity can be said to be not a superior commodity. If the value of a commodity LQ=1, then the commodity can be said to be a commodity that can only meet the needs of its own region.

Specialization(Sp), used to view commodity area specialization. Formulation(Sheldon, 2014)

Sp = {(Si / ΣSi) − (Ni / ΣNi)} β= Sp(+)

Keterangan :

Sp = Specialization

β = Specialization coefficient

Si = production, area of commodity in sub-district area i

Ni = production, area of commodity in district-i

ISi = Total production, area of commodity in sub-district i

ΣNi = Total production, area of commodity in district-i

Decision making criteria:
1) α>1; Tobacco commodities are concentrated in a sub-district
2) α<1; Tobacco commodities in several areas in sub-district i

3.2. Contribution to the regional economy

To test the third hypothesis about the contribution given by tobacco commodities as a base sector in the development of the plantation sector in Jember Regency, a formulation was used, namely:

$$\text{Contribution(\%)} = \frac{Y1\,(Rp)}{Y2\,(Rp)} \times 100\%$$

Information :

Y1 = Tobacco Revenue of Jember Regency

Y2 = GRDP of the Plantation Sector of Jember Regency

Decision making, using the following criteria:
a) If the value of the contribution to the GRDP of the plantation sector is>20%, then the tobacco commodity contributes high,
b) If the value of contributions to plantation sector PDR is between 20%-10%, then the tobacco commodity contributes moderately,
c) If the value of the contribution to the GRDP of the plantation sector is>10%, then the tobacco commodity contributes low.

4. Research Result

4.1. Location quotient analysis(LQ)

Identified agricultural commodities as a leading commodity in Jember Regency for food crops sub-sector that has LQ>1, namely rice, corn, cassava, sweet potato, peanuts, soybeans, cabbage, mustard greens, long beans, large chili, cayenne, mushrooms, tomatoes, eggplants, cucumbers, kale, spinach, melon, watermelon, avocado, star fruit, duku, durian, guava, guava, siam, mango, mangosteen, jackfruit, banana, rambutan, papaya, salak, sapodilla, soursop , duku, petai, wine and passion fruit. The plantation sub-sector, are coffee, coconut and tobacco, and the livestock sub-sector were not found superior commodities in Jember district. The fisheries sub-sector aremarine and pond cultivation and the last is the forestry sub-sector, namely pine. These commodities are commodities that able to meet the needs of the Jember Regency and the needs of other regions (exports) so that agricultural commodities are classified as superior commodities. Leading commodities with the greatest value are as follows:

<Table 1> Results of LQ Calculation, 5 Main Commodities in Jember Regency

Commodity Name	2013	2014	2015	2016	2017	Average	Sub Sector
Watermelon	21,455	21,346	17,520	22,053	22,995	21,074	Crops
Papaya	18,081	22,260	27,253	37,404	28,532	26,706	Crops
Siam Citrus	19,274	24,361	24,608	13,895	14,102	19,248	Crops
Tobacco	24,440	19,416	19,147	13,091	16,125	18,444	Plantation
Coffee	12,271	18,766	25,737	14,978	18,303	18,011	Plantation
Rambutan	17,670	19,905	17,922	16,619	21,362	18,696	Crops
Mangosteen	12,271	18,766	25,737	14,978	18,303	18,011	Crops
Duku	21,241	14,061	14,774	22,192	16,294	17,712	Crops

The contribution of the Agriculture, Forestry and Fisheries sector in the formation of the Jember Regency Gross Regional Domestic Product was very large compared to other sectors, which was 40,62% in 2016. The contribution of the Agriculture, Forestry, and Agriculture sector was the largest contributor to the plantation sub-sector with a contribution of 15,7% of the Jember Regency Gross Regional Domestic Product, while the food crop sector only accounted for 10,4% of the Jember Regency Gross Regional Domestic Product in 2016. This showed that the economy of Jember Regency was still dominated by the plantation sector. The commodities of the plantation sub-sector that were identified as superior commodities that had LQ> 1 were coffee at 3,39, coconut at 2,339 and tobacco at LQ 18,4. Tobacco commodities have the largest LQ value among other plantation commodities, namely 18,4.

4.2. Commodity specialization

This study specializes in tobacco plantation products. Based on Jember district export value data, the biggest contribution from tobacco plants is Rp. 1.518.980.000,-. The specialization of tobacco commodities in Kabupaten Jember aims to to establish whether or not the Hember Regency was created specifically for tobacco farmingwhether Jember Regency specifically specializes in tobacco farming or does not specialize. The coefficient value of the specification of tobacco commodity in Jember Regency in 2013-2017 wasbased on the Jember Regency production indicator(kW) which has a positive Specialization value(Sp β+). The average value of the tobacco commodity specialization coefficient in 2013 to 2017 was known that the Specialization coefficient value fluctuates from year to year. The highest specialization coefficient value of 0,290 occurred in 2015. The lowest specialist coefficient value occurred in 2013, which was 0,129. The lowest fluctuations in specialization coefficients occur because of the abilityof tobacco production in that year to be offset by the production of other plantation commodities, thus affecting the relatively small tobacco coefficient value. During the period of 2013-2017, the coefficient value was in more than one, meaning that Kabupaten Jember specialized in only one type of plantation but still cultivated other plantation crops.

4.3. Tobacco contribution to the plantation sector

Contributions are contributions given by a sector to the Gross Regional Domestic Product. This sector contribution indicator is used to analyze the contribution made or the role of the Gross Regional Domestic Product of this Research, using a method based on constant or fixed prices in 2010, in the assessment of Gross Regional Domestic Product which assumes that all production of goods and services is valued at the price in the year certain selected as the base year, namely in 2010. This determination can be used to measure the economic growth of an area that reflects growth that is more vary from year to year.

<Table 2> The contribution of Tobacco Commodities to Jember Regency's Gross Regional Domestic Product according to the 2013 Base Price(Rp. Million)

Year	Gross Regional Domestic Product		Percent
	Plantation	Tobacco	
2013	4243,53	937,51	22,09%
2014	4434,86	957,93	21,60%
2015	4671,54	1018,53	21,80%
2016	4761,44	1180,85	24,80%
2017	4789,67	1518,98	31,71%
Average	4580,21	1122,76	24,40%

The contribution of tobacco commodities is calculated based on the percentage of contributions given to the Jember Regency Gross Regional Domestic Product. Tobacco commodity contribution is stated to be high if it contributes to>20% of the Gross Regional Domestic Product of the Jember district plantation sector. The biggest contribution value occurred in 2017 with a total contribution of 31,71% and the smallest contribution value occurred in 2014 with a contribution value of 21,60% of the total Gross Regional Domestic Product of the plantation sector in Jember Regency. The contribution value increased in the following year, namely in 2015 amounting to 0.20%. The average contribution given by the tobacco sector during the period 2013-2017 was 24,40%. The contribution of tobacco commodities was declared high because the contribution to

the Jember Regency Gross Regional Domestic Product was > 20%.

Tobacco is a commodity that has the highest export value and accounts for around 81.09 percent of the total exports of Jember Regency. The market serves as an important place in the distribution of goods.

<Table 3> Volume(Kg) and Value(US $) of Exports by Type of Commodity, 2016

Type of Commodity	Volume of Exports(Kg)	Value of Exports(US$)
Edamame	44.955.780,00	9.907.494,00
Tobacco	17.908.066,00	113.516.671,00
Rubber	7.768.396,00	12.038.047,00
Cocoa	90.188,00	547.582,13
Coffee	83.220,00	247.571,40

The export value of Jember Regency that was produced by Tobacco was $113.516.671 that was the highest contributor to Jember's export. Tobacco is one of the agricultural commodities that play an important role in the country's economy because it is a foreign exchange and excise producer. Jember Regency is a region producing cigar tobacco in Indonesia. In the past the North Jember region was chosen as the center of the cigar tobacco cultivation area, however, due to the decline in tobacco production which was coused by tobacco disease, the planting area has been extended to South Jember(Djajadi, 2015). Besides that, tobacco commodity is an export commodity, which contributes the biggest income to the value of Jember Regency and contributes 25% of the national export value(Iryono, 2018). Jember Regency, which had regional advantages in producing tobacco commodities, must be able to use and utilize the factors of production of labor, capital and well owned technology development to produce differentiation of products in order to increase production volumes with relatively low costs. An increased in production volume would cause a surplus in meeting domestic needs and it would increase the volume of tobacco exports abroad. Thus, the greater the volume of production, the greater the volume of exports and ultimately can increase the value of tobacco exports in Jember Regency.

The challenge of developing tobacco industry is the export tax policy where an increase in export taxes results in a deterioration in the level of Jember tobacco competitiveness in the international market(Yach & Bettcher, 2000). The Indonesian government's policy on increasing export taxes and tobacco excise has negative implications on the tobacco industry in Jember which is hampering export distribution due to high tax provisions(Lawrence & Collin, 2004). The policy of increasing export tax is not only a disincentive for most industry players, but also can reduce state financial revenues and hamper investment activities

and international trade in the tobacco industry. Those who immediately feel the increase in tobacco export taxes, are tobacco farmers in the Jember area(Lawrence & Collin, 2004). As the best tobacco exporter in the world, with this increase in export taxes will inhibit the productivity of tobacco output. An increase in tobacco export tax reduces labor costs and reduces the selling price of tobacco farmers to tobacco entrepreneurs. The export tax policy is expected to be able to position the priority sequence appropriately to find solutions to urgent economic problems. The government's plan to raise tobacco export tax rates will only increase production costs and hamper the growth of the production sector, especially the tobacco industry in Jember. This further reinforces that Indonesia's economic growth is suppressed by high costs. The implication of this problem socially is the decrease in the absorptive capacity of the industrial sector towards labor which is decreasing.

5. Conclusion

5.1. Summary of results

Identified agricultural commodities as a leading commodity in Jember Regency for food crops sub-sector that has LQ > 1, namely rice, corn, cassava, sweet potato, peanuts, soybeans, cabbage, mustard greens, long beans, large chili, cayenne, mushrooms, tomatoes, eggplants, cucumbers, kale, spinach, melon, watermelon, avocado, star fruit, duku, durian, guava, guava, siam, mango, mangosteen, jackfruit, banana, rambutan, papaya, salak, sapodilla, soursop , duku, petai, wine and passion fruit. The plantation sub-sector, namely coconut, coffee and tobacco, and the livestock sub-sector, is nonexistent. For fisheries, sub-sectors are marine and pond cultivation and the last is the forestry sub-sector, namely pine. This means that the commodity is a commodity that is able to meet the needs of the Jember Regency and is able to meet the needs of other regions (exports) so that agricultural commodities are classified as superior commodities.

5.2. Implications

The Jember area is the second best exporter of quality cigar cigarettes worldwide after Brazil and 90% are exported to Germany and Switzerland. Tobacco quality in Jember is indeed dependent on tobacco farmers and tobacco industry players. Therefore, the quality of tobacco in Jember needs to be improved in accordance with market desires and the development of existing technology so that the exported tobacco remains in demand by foreign countries. Tobacco potential in Jember greatly affects the Indonesian economy, especially the Jember region. The average contribution given by the tobacco sector during the period 2013-2017 was

24.40%, thus the contribution of tobacco commodities was declared high because the contribution to the Jember Regency Gross Regional Domestic Product was >20%. Jember has an inclusive growth where the level of Gross Regional Domestic Product is quite high, supported by the tobacco plantation sector.

5.3. Limitations and future studies

It needs to study further in the future about the economic contribution of local superior commodities to the regional economy in each commodity. It is necessary to develop tobacco commodity areas in the base regions, so that tobacco competitiveness in the region increases and the need for tobacco commodity development activities in non-base areas so that regional tobacco production can be further improved. It needs to be support from the government in the form of policies related to planning the use of regional labor and developing human resources, especially in tobacco plantations that have positive changes and the impact of regional income. Improving the quality and quantity of tobacco plants as cigar materials that have high prices.

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