

# Analysis of base sector and non-base sector on economic growth in Pagar Alam city



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## ABSTRACT

This study aims to examine the effect of the base sector and non-base sector on economic growth in Pagar Alam City, using time-series data from 2010 to 2022. The study employs Static Location Quotient (SLQ) and Dynamic Location Quotient (DLQ) analyses, followed by typology klassen analysis, to identify both base and non-base sectors. This study also uses multiple linear regression to estimate how different sectors influence economic growth. The gap of research is analyze in detail in combining these methods to evaluate sectoral impacts in Pagar Alam, a highland city with significant untapped potential. The result show that key sectors like agriculture, construction, and education play a crucial role in driving economic growth in Pagar Alam city, while non-key sectors tend to have a weaker or even negative impact. The implication of the study government should ensure the sustainability of Pagar Alam's agriculture, forestry, and fisheries sectors, which are vital to the local economy and tourism.

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## 1. Introduction

Economic development involves a series of actions and strategies aimed at improving the economic well-being of a country or region (Zumaeroh & Prabawa, 2020). This concept refers to efforts to optimize the economy of a region by utilizing existing resource potential, encouraging investment, creating job opportunities, as well as increasing income and improving infrastructure facilities (Hutabarat, 2020) and as implementation of regional autonomy an increase in people's income (Hayat et al., 2023) even more for distribution of income (Prasetyo, 2023). Several factors influence economic development, such as geographic conditions —including location, topography, and natural resources (Todaro & Smith, 2012). The common way to measure economic development is through Gross Regional Domestic Product (GDRP), which captures the total value added from goods and services produced in a region over a specific time period (Ramadhan et al., 2023). GDRP also include all economic activities, from government and corporate sectors to household, making it a key indicator to see how is the region's economic progress (Pujianto & Meilvidiri, 2023).

Pagar Alam city, as one of the administrative cities in South Sumatra Province, has an area of around 633.66 square kilometers with a total population of 147.071 thousand people. Pagar Alam is a city with a region dominated by highland topography, which has potential in the agricultural, plantation and tourism sectors which in this case can provide a great economic boost for the city. Table 1 shows Pagar Alam has the lowest GRDP contribution among cities and districts in South Sumatra Province. However, if you look at its development, Pagar Alam City's GRDP from 2018 to 2022 shows a consistent increasing trend. In 2018, Pagar Alam City's GRDP reached Rp. 2158.09 billion and continues to increase to 2447.55 billion in 2022 with an average growth of 3.41 percent. Even

though this city has a low economic contribution, this positive trend shows the potential for significant economic growth.

**Table 1.** GRDP Based on Constant Prices According to Districts/Cities in South Sumatra Province 2018-2022 (Billion Rupiah).

Regency	2018	2020	2022
Ogan Komering Ulu	9339.33	9866.72	10683.32
Ogan Komering Ilir	19205.73	20228.21	21993.06
Muara Enim	38854.44	41594.54	47970.37
Lahat	11723.72	12427.42	13920.58
Musi Rawas	12921.71	13712.55	14602.02
Musi Banyuasin	42670.21	44604.66	48097.66
Banyuasin	18982.00	19999.57	21871.60
OKU Selatan	5436.56	5734.09	6264.44
OKU Timur	9493.39	10081.03	11127.87
Ogan Ilir	7113.26	7492.94	8168.68
Empat Lawang	3349.00	3473.40	3784.49
Penukal Abab Lematang Ilir	4430.55	4716.96	5033.47
Musi Rawas Utara	5331.25	5573.36	5961.63
Palembang	98471.25	103952.69	112809.03
Prabumulih	5101.77	5377.93	5822.37
Pagar Alam	2158.09	2234.27	2447.55
Lubuk Linggau	4106.07	4333.67	4671.90

Source: Badan Pusat Statistik (2022)

Putra & Rahmawati (2022) states growth in the value of Gross Regional Domestic Product (GRDP) or economic growth in a region indicates positive dynamics in regional economic development. Significant economic growth reflects increased production and added value from various economic sectors in the region (Sukirno, 2016). Economic growth can be caused by a number of factors, including increased investment, sectors development, and efficiency in the use of economic resources (Latifah & Haviz, 2022). Economic base theory, only base sectors or sectors that have comparative advantages can influence the economy of a region, this is because the base sector has a significant contribution in increasing economic growth with its advantages (Tarigan, 2014; Arsyad & Violin, 2021). In line with Komara & Amaliah (2023) that the base sector has a positive relationship and has a significant influence on the rate of economic growth in a region. Meanwhile, sectors that do not have advantages or non-based sectors do not have a significant influence because the non-based sectors only focus on fulfilling the need for goods and services within their region. The contribution of the study to the literature is depth analysis on effect of base sector and non-base sector on growth in Pagar Alam city that has the lowest contribution of GRDP in South Sumatra.

Ayuningtyas et al (2023) emphasizes that crisis such as COVID-19 declining on growth, the sectors involved are not only the health sector but also the economy, especially trade, industry, and tourism. A continuous declining in GRDP, it can disrupt the poverty alleviation and income distribution agenda (Belantika et al., 2023). This shows that GRDP research that analyzes base and non-base sectors is essentials. Dian & Retno (2022) argue the base sector makes a greater contribution than the non-base sector, through this large contribution, it can directly encourage the economic growth of a region significantly. Hussin & Ching (2013) states the sector's has a higher contribution to GDP can boost economic growth. Moreover, the base sector or sector that has this advantage will later be able to create a synergy effect between related sectors (Tarigan, 2014). Oktaviya & Sutikno (2024) argued that synergistic growth theory able to synergize of these sectors and create a greater positive effect than the growth of each sector separately. Arsyad & Violin (2021) found the growth in the construction sector can create a greater need for raw materials for construction materials. An increase in construction activity often causes an increase in the volume of delivery and storage of construction materials, moving the transportation sector to transport these materials from the source to the project site, thereby stimulating growth in transportation and warehousing sectors. Melliny et al (2022) states sectors that have a large contribution to GRDP have a multiplier effect on labor absorption.

**Table 2.** Average Contribution of Each Sector to GRDP Based on Constant Prices in Pagar Alam City 2018-2022 (Percentage).

Sectors	Contribution
Agriculture, forestry, fisheries	24.54
Mining and excavation	2.29
Processing industry	1.33
Procurement of Electricity and Gas	0.07
And Water Supply, Waste Management, Waste	0.06
Construction	17.36
Wholesale and Retail Trade; Car and Motorcycle Repair	18.90
Transportation and Warehousing	2.97
Provision of Food and Drink Accommodation	3.06
Information and Communication	1.93
Financial Services and Insurance	3.76
Real Estate	5.96
Company Services	0.09
Government Administration, Defense and Mandatory Social Security	3.07
Education Services	10.16
Health Services and Social Activities	2.09
Other services	2.36

Source: Badan Pusat Statistik Pagar Alam City (2023).

Table 2 shows the agriculture, forestry and fisheries sectors are the main pillars in forming the Gross Regional Domestic Product (GRDP) of Pagar Alam City with an average contribution of 24.54 percent in the last five years. Sectors that have a large contribution are generally supported by the potential in the regions themselves, both in terms of natural resources and human resources. Areas that have same characteristics as Pagar Alam city which has potential in its geographical conditions and sectors such as agriculture and forestry are sectors which has the most significant contribution to the economy in areas that have potential in geographical conditions (Kurniawan, 2016; Sertoğlu et al, 2017; Suaidy, 2017; Hidayah et al, 2023) (Redu et al., 2023). Even though each region has unique economic potential, there has not been adequate effort to identify the potential of this sector as a whole (Redu et al., 2023). This study aim to analyze on regional potential in Pagar Alam City, a highland city with untapped economic potential in sectors like agriculture, service, and tourism regions with similar topographical characteristics have not been as thoroughly explored. Additionally, the methodological approach of integrating SLQ, DLQ, and typology klasen analysis, along with multiple linear regression, offers a more comprehensive and detailed analysis of sectoral impacts on economic growth.

## 2. Method

Study used the Static Location Quotient (SLQ) analysis to identify the base and non-base sectors. To asses their future potential, this will include Dynamic Location Quotient (DLQ) analysis. The result from both SLQ and DLQ analyses were then used in the Klassen Typology analysis to categorize the sectors based on their value. Following the result of SLQ analysis, multiple linear regression analysis was conducted to evaluate how both base and non-base sectors influence the economic growth rate in Pagar Alam City. Sources of data obtained from the official website of the Badan Pusat Statistik (BPS) of South Sumatra Province and Pagar Alam City. The data includes Gross Regional Domestic Product (GDRP) and economic growth figures, all data based on constant price, from 2010 to 2022 period. Data collection was carried out through documentation method, involving acces to these reliable sources to gather the necessary information.

The Static Location Quotient (SLQ) is a method used to compare the proportion of value added by a sector and identify which sectors is classified as a the base and non-base sectors. The formula for the SLQ as follows:

$$SLQ = \frac{y_i/y_t}{Y_i/Y_t} \quad (1)$$

If the value of SLQ for sector  $i > 1$ , it indicates that sector  $i$  is classified as a base sector. While the SLQ value in sector  $i < 1$ , it indicates that sector  $i$  is classified as a non-base sector. Dynamic Location Quotient (DLQ) is a method used to analyze changes in the role of specific economic sectors in a country or region. DLQ also helps to identify a sector with potential for economic development. The DLQ equation based on [Suryani \(2019\)](#) as follows:

$$DLQ = \frac{(1 + g_{ij})/(1 + g_j)}{(1 + G_i)/(1 + G)} \quad (2)$$

If the value of DLQ for sector  $i > 1$ , it indicates that sector  $i$  has the potential for faster development compared to other sectors. On the other hand, if the value of DLQ for sector  $i < 1$ , it indicates that sector  $i$  has slower development potential than the other sectors. Klassen Typology used in this study to compare the value of SLQ and DLQ. This comparison is based on four criteria, as follows: (a) when both SLQ and DLQ  $> 1$ , the sector is categorized as a leading sector with the potential for further success in the future; (b) when the value of SLQ  $> 1$  and DLQ  $< 1$ , the sector is considered a leading sector but does not have the potential to continue excelling in the future; (c) when the value of SLQ  $< 1$  and DLQ  $> 1$ , the sector is classified as a non-leading sector, but has a potential in the future; (d) when both the value of SLQ and DLQ  $< 1$ , the sector is classified as a non-leading sector with no potential in the future ([Tarigan, 2014](#)).

This study examines how the base and non-base sectors influence the economic growth in Pagar Alam City. This will involve examining their overall influence rather than focusing on the details of each sector, and this will use multiple linear regression. This statistical method is used to understand the linear relationship between one dependent variable and two or more independent variables ([Gujarati et al., 2019](#)). The equation as follows:

$$LPE_t = \beta_0 + \beta_1 SB_t + \beta_2 SNB_t + \varepsilon_t \quad (3)$$

Where, LPE is growth economic; SB is total addition from the base sector; SNB is total addition from the non-base sector;  $\beta_0$  is the intercept;  $\beta_1$ -  $\beta_2$  are coefficient;  $t$  is time series; and  $\varepsilon$  is the error term. First step is conduct a data stationary test to assess whether there is a constant variance between the variables ([Hussin & Ching, 2013](#)). Second step is conduct classical assumption test, which consists of the normality test, autocorrelation test, and heteroscedasticity test to reduce false regression in the model.

### 3. Results and Discussion

The results of SLQ analysis (see [Appendix I](#)), there are 10 sectors that have SLQ values  $> 1$  and this means that these ten sectors are classified as base sectors in Pagar Alam City from 2010 to 2022. These sectors include sectors (a) agriculture, forestry, fisheries, (f) construction, (g) wholesale and retail trade; car and motorbike repair, (h) transportation and warehousing, (i) provision of accommodation and food and drink, (k) financial and insurance services, (l) real estate, (o) educational services, (p) health services and social activities, (q) other services, these base sectors are sectors that export products outside the boundaries of the local economy and obtain inputs of goods and services from outside the community economy. Base activities in an area can move the economy in a region ([Redu et al., 2023](#)). The sectors that have an SLQ value  $< 1$  are sectors (b) mining and quarrying, (c) processing industry, (d) electricity and gas supply, (d) water supply, waste management, waste and recycling, (j) information and communications, (m) corporate services, (n) government administration, defense and mandatory social security. These seven sectors are categorized as non-base sectors, which means that these sectors cannot support their own regional needs, so imports from outside the region are required ([Tarigan, 2014](#)).

The results of the DLQ calculation (see [Appendix II](#)) for Pagar Alam City show that there are ten sectors that have a DLQ value  $> 1$  in 2011-2022. These sectors include (a) agriculture, forestry, fisheries, (c) processing industry, (d) electricity and gas procurement, (e) water supply, waste management, waste and recycling, (f) construction, (k) financial and insurance services, (n) government administration, defense and mandatory social security, (o) educational services, (p) health services and social activities, (q) other services, these ten sectors are sectors that have a faster average development than the same sectors in all districts or cities in South Sumatra Province. Which means these sectors are expected to become base sectors in the future ([Suryani, 2019](#)). Meanwhile, sectors

with an average DLQ value  $< 1$  or sectors that have slower development than the same sectors in South Sumatra Province.

**Table 3.** Comparative Typology of Static Location Quotient (SLQ) and Dynamic Location Quotient (DLQ) in Pagar Alam City 2011-2022.

<p><b>SLQ &gt; 1, DLQ &gt; 1</b> Agriculture, Forestry and Fisheries Construction Financial Services and Insurance Education Services Health Services and Social Activities Other services</p>	<p><b>SLQ &lt; 1, DLQ &gt; 1</b> Processing industry Procurement of Electricity and Gas Water Supply, Waste Management, Waste and Recycling Government Administration, Defense and Mandatory Social Security</p>
<p><b>SLQ &gt; 1, DLQ &lt; 1</b> Wholesale and Retail Trade; Car and Motorcycle Repair Transportation and Warehousing Provision of accommodation and food and drink Real Estate</p>	<p><b>SLQ &lt; 1, DLQ &lt; 1</b> Mining and excavation Information and Communication Company Services</p>

Source: data processed

Table 3 shows there are six economic sectors that are classified as leading sectors or base sectors that have the potential to remain base sectors in the future, these sectors include (1) agriculture, forestry and fisheries, (2) construction, (3) financial services, (4) educational services (5) health services and social activities, (6) other services. These six sectors act as supporting sectors both now and in the future, these six sectors are also able to make a significant contribution to the city's economic growth. Meanwhile, there are three sectors that are classified as underdeveloped sectors or non-base sectors that do not have the potential to become base sectors in the future. These sectors include (1) mining and quarrying, (2) information and communication, (3) company services.

**Table 4.** Result of Stationery Test.

Unit Root Test Result at Level			Statistic	Prob.
ADF - Fisher Chi-square			3.65624	0.7231
ADF - Choiz Z-stat			0.86591	0.8067
Series	Prob.	Lag	Max Lag	Obs
LPE	0.2100	0	0	12
SB	0.8592	0	0	12
SNB	0.8905	0	0	12
Unit Root Test Result at First Difference			Statistic	Prob.
ADF - Fisher Chi-square			17.4047	0.0079
ADF - Choiz Z-stat			-2.68997	0.0036
Series	Prob.	Lag	Max Lag	Obs
LPE	0.0145	0	0	11
SB	0.0841	0	0	11
SNB	0.1360	0	0	11
Unit Root Test Result at Second Difference			Statistic	Prob.
ADF - Fisher Chi-square			27.437	0.0001
ADF - Choiz Z-stat			-3.92171	0.0000
Series	Prob.	Lag	Max Lag	Obs
LPE	0.0014	0	0	10
SB	0.0173	0	0	10
SNB	0.0454	0	0	10

Source: data processed



The data used in the regression model is the total addition of each base sector and non-base sector. Stationery test aims to assess where the position of each variable is close to the average value, with fluctuations that are independent of time and variance (He, 2018). Table 4 shows all variables have non-stationary data, this can be seen from the probability value of the t-statistic which is > 0,05 percent, so it is tested again at the first difference level and the results show that all the variables are still not stationary, then the test is carried out again at the second difference level and the results show that all variables have a probability of < 0,05 percent. Thus, the data is stationary at the second difference level.

Table 5 shows the classic assumption test, namely the normality test, the probability value of the jarque-bera is 0.2138, this value is greater than the alpha level (5%) so it can be concluded that the data in the research it is normally distributed. Next, in the autocorrelation test, it can be seen that the value of the obs-squared probability is 0,0792, this value is greater than the alpha level (5%), so it can be concluded that there is no autocorrelation in the model and the probability value of the Breusch-Pagan test is 0,5311, this value is greater than the alpha level so it can be concluded that there is no heteroscedasticity problem in this study.

**Table 5.** The Result of Regression Model.

Variables	Coefficient
Base Sector	0.078 (3.297)**
Non-Base Sector	-0.336 (-0.932)
C	-0.174 (-0.300)
Diagnostic Tools	
Adjusted R-Squared	0.586
F-stat	8.086**
Classical Assumption	
Normality Test	0.214
Autocorrelation Test	0.079
Heteroskedasticity Test	0.531

Source: data processed

Table 5 shows a multiple linear regression equation can be formed as follows:

$$LPE = -0.17408 + 0.07838SB - 0.33611SNB + \varepsilon$$

The coefficient value of the constant variable is - 0.174, which means that if the base sector and non-base sector variables have a constant value or are equal to zero, then the average amount of economic growth in Pagar Alam City is - 0.174 percent. The base sector has a positive correlation and significantly affect on economic growth in Pagar Alam City in 2010-2022. The coefficient value of 0.078, indicates that for every increase in the base sector, economic growth in Pagar Alam City will rise by 0.078 percent. These findings are also consistent with previous studies by Zeira & Zoabi (2015); Ductor & Grechyna (2015); Pratama (2016) and Bahasaoan et al (2022) they founds the base sector has a positive and significantly effect to the rate of economic growth. This is in line with economic base theory, which suggest that the base sector is crucial for driving significant economic growth by creating demand for goods and service outside the local area. Garidzirai et al (2019) emphasize that a strong base sector can stimulates regional economic activity by creating demand across related sectors, resulting in a multiplier effect that boosts overall economic performace.

The non-base sector has a negative correlation and insignificantly affect to economic growth in Pagar Alam City in 2010-2022. The coefficient value for the non-base sector variable is -0.336. The results of this research are also supported by research conducted by Etim & Daramola (2020) found that the non-based sector has a negative relationship and an insignificant influence on the rate of economic growth. In the economic base theory put forward by Richardson in 1973, it was emphasized that only the base sector has the ability to significantly increase economic growth in a region. The base sector and non-base sector together have a significant affect on economic growth in Pagar Alam City in 2010-2022 based on probability of f-statistic value (0.012), this value is smaller than the alpha level of 5 %, then it can be concluded that all independent variables have a significant influence on

the dependent variable. The existence of a synergy effect, both in the base sector and the base sector, can indirectly create a multiplier effect, where growth in one sector can stimulate growth in other sectors, such as growth in the real estate sector, then the demand for property development will increase, and Directly, activity in the construction sector will also increase. Likewise in the agricultural, forestry and fisheries sectors, growth in this sector, in the future, related sectors such as the transportation and warehousing sectors will also increase, because the agricultural, forestry and fisheries sectors require means of transportation to distribute natural products to the community. Thus, through synergy between these sectors, it will be possible to directly encourage significant economic growth. This is also in line with the synergistic growth theory, in this theory, synergy between sectors can create a greater positive effect on the growth of each related sector, thereby significantly increasing economic growth in a region (Tarigan, 2014). The base sector and non-base sector variables are able to explain the economic growth rate variable in Pagar Alam City by 66.9 percent, while the remaining 33.1 percent is explained by other variables.

#### 4. Conclusion

Economic development involves a series of actions and strategies aimed at improving the economic well-being of a country or region. Pagar Alam is a city with a region dominated by highland topography, which has potential in the agricultural, plantation and tourism sectors which in this case can provide a great economic boost for the city and Pagar Alam has the lowest GRDP contribution among cities and districts in South Sumatra Province. Based on the typology klassen analysis, which combines SLQ and DLQ results, several key sectors are identified as base sectors driving Pagar Alam's economic growth from 2010 to 2022. Sectors with  $SLQ > 1$  and  $DLQ > 1$ —including Agriculture, Forestry and Fisheries, Construction, Financial Services and Insurance, Education Services, Health Services and Social Activities, and Other Services—are classified as leading base sectors. These sectors not only currently dominate the local economy but also demonstrate strong potential for future growth.

The result of multiple regression provide the base sector has a positive correlation and a significant effect on Pagar Alam City's economic growth from 2010 to 2022, aligning with the economic base theory. Sectors like agriculture, which contributes 24.54% to the economy, drive growth by meeting both local and external needs. In contrast, the Non-Base Sector has a negative correlation and an insignificant effect, as it focuses primarily on fulfilling local demands. Together, the Base and Non-Base Sectors create a synergy, generating a multiplier effect where growth in one sector stimulates others, such as agriculture and transportation. This combined impact significantly boosts the city's economic growth. The implication of the study that government should ensure the sustainability of Pagar Alam's agriculture, forestry, and fisheries sectors, which are vital to the local economy and tourism. To prevent deforestation and environmental damage from urban development, protective measures must be implemented.

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**Appendix****Appendix I.** Table of Static Location Quotient Calculation

Sector	Average	Classification
A. Agriculture, Forestry and Fisheries Construction	1.39	Base
B. Mining and excavation	0.11	Non-Base
C. Processing industry	0.07	Non-Base
D. Procurement of Electricity and Gas	0.54	Non-Base
E. Water Supply, Waste Management, Waste and Recycling	0.52	Non-Base
F. Construction	1.54	Base
G. Wholesale and Retail Trade; Car and Motorcycle Repair	1.90	Base
H. Transportation and Warehousing	1.60	Base
I. Provision of accommodation and food and drink	2.17	Base
J. Information and Communication	0.54	Non-Base
K. Financial Services and Insurance	1.61	Base
L. Real Estate	1.99	Base
M,N. Company Services	0.85	Non-Base
O. Government Administration, Defense and Mandatory Social Security	0.98	Non-Base
P. Education Services	3.61	Base
Q. Health Services and Social Activities	2.92	Base
R,S,T,U. Other services	2.85	Base

Source: data processed

**Appendix II.** Table of Dynamic Location Quotient Calculation

Sector	Average	Classification
A. Agriculture, Forestry and Fisheries Construction	1.14	Potential
B. Mining and excavation	0.94	Non-Potential
C. Processing industry	1.09	Potential
D. Procurement of Electricity and Gas	1.15	Potential
E. Water Supply, Waste Management, Waste and Recycling	1.08	Potential
F. Construction	1.03	Potential
G. Wholesale and Retail Trade; Car and Motorcycle Repair	0.94	Non-Potential
H. Transportation and Warehousing	0.91	Non-Potential
I. Provision of accommodation and food and drink	0.99	Non-Potential
J. Information and Communication	0.89	Non-Potential
K. Financial Services and Insurance	1.04	Potential
L. Real Estate	0.87	Non-Potential
M,N. Company Services	0.98	Non-Potential
O. Government Administration, Defense and Mandatory Social Security	1.01	Potential
P. Education Services	1.19	Potential
Q. Health Services and Social Activities	1.09	Potential
R,S,T,U. Other services	1.00	Potential

Source: data processed