

## Addressing Development Disparities Between Western and Eastern Indonesia: Economic Challenges and Solutions

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### Abstract

*Indonesia faces significant development disparities between its western and eastern regions. The western regions, particularly Java, Sumatra, and Bali, have long been the center of economic growth, with more advanced infrastructure and better access to education and healthcare services. In contrast, Eastern Indonesia, including provinces such as Papua, Nusa Tenggara, and Maluku, remains lagging in various aspects of development, such as infrastructure, education, and healthcare. This study aims to analyze the economic challenges causing these disparities and explore solutions that can be implemented to reduce the development gap between these regions. The results indicate that the lack of infrastructure investment, low human capital quality, and high dependence on central government transfers are the primary factors behind these disparities. Policies such as fiscal decentralization and special autonomy in Papua have been implemented but have shown limited effectiveness. Therefore, greater investments in infrastructure and education, along with policies that promote equitable development, are needed to help Eastern Indonesia catch up and achieve more inclusive economic growth.*

**Keywords:** development disparities, western and eastern regions, infrastructure, education, fiscal decentralization.

### INTRODUCTION

Indonesia, the world's largest archipelagic nation, consists of over 17,000 islands and more than 270 million people spread across the vast archipelago. Its cultural, geographical, and natural resource diversity presents both challenges and opportunities for achieving equitable economic development. However, despite its immense potential, Indonesia still faces significant development disparities between its western and eastern regions.

Western Indonesia, which includes the islands of Java, Sumatra, and Bali, has long been the center of the nation's economic and political activity. Jakarta, as the capital and the country's main business hub, attracts investment, skilled labor, and a constantly evolving infrastructure. In contrast, Eastern Indonesia, encompassing provinces such as Papua, Maluku, Nusa Tenggara, and Sulawesi, remains lagging in several aspects of development. This disparity is evident across various economic indicators, such as Gross Domestic Product (GDP) per capita, poverty rates, access to education and healthcare, and limited infrastructure.

This gap not only affects economic prosperity but also has significant social and political implications. Eastern Indonesia, often isolated geographically and facing structural challenges in infrastructure development and regional governance, frequently feels marginalized in national development policies. This

further exacerbates the economic imbalance, prolonging the dependency of the eastern regions on central government support, while the western parts continue to experience faster growth.

These disparities are not new; they have been a persistent issue for decades. The root causes of these inequalities can be traced back to the colonial era when the Dutch focused economic activity in Java and Sumatra, which became the administrative and economic core of the colony. After Indonesia's independence, this pattern of development continued, with the government prioritizing the western regions while the eastern territories remained underdeveloped. Even though the Indonesian government has made efforts to address this issue through targeted regional development programs and special autonomy for certain regions, progress has been slow, and significant challenges remain.

The importance of balanced development across Indonesia is not only critical for economic growth but also for social and political stability. Uneven development can lead to dissatisfaction and discontent in the less-developed regions, potentially escalating into social tensions and undermining political stability. Therefore, addressing the development disparities between Western and Eastern Indonesia is essential for achieving inclusive and sustainable growth for the entire nation.

The main objective of this paper is to examine the economic challenges that cause the development disparities between Western and Eastern Indonesia and explore potential solutions to reduce these inequalities. By understanding the root causes of these disparities and evaluating the effectiveness of current policies and initiatives, this study aims to provide recommendations that can help policymakers and relevant stakeholders address these issues more effectively.

The primary challenges faced by Eastern Indonesia include inadequate infrastructure, limited access to basic services such as education and healthcare, and an over-reliance on a narrow range of economic sectors. Additionally, factors such as the unequal distribution of natural resources, geographical barriers, and governance challenges at the local level further hinder progress. Nevertheless, there are significant opportunities to stimulate growth through targeted investments in sectors such as tourism, agriculture, and renewable energy, which could contribute to sustainable economic development in Eastern Indonesia.

Through this study, the paper aims to provide insights into the strategies that could be adopted to foster more equitable and inclusive development between the western and eastern regions of Indonesia. By offering a deeper analysis of the existing policies and examining the untapped potential of Eastern Indonesia, this paper hopes to serve as a useful reference for policymakers and development practitioners in designing effective solutions to address these disparities.

## LITERATURE REVIEW

### Economic Disparities Between Western and Eastern Indonesia

The economic disparity between Western and Eastern Indonesia has been a persistent issue, with a long history dating back to the colonial era. Western Indonesia, particularly Java, Sumatra, and Bali, has historically been the center of political, economic, and industrial activity. In contrast, Eastern Indonesia, which includes provinces like Papua, Maluku, and Nusa Tenggara, has faced challenges such as geographical isolation, limited infrastructure, and lower levels of human capital. Research conducted by Sihombing (2019) highlights how the disparity between these regions is marked by differences in key indicators such as poverty rates, unemployment, the Gini coefficient, and access to sanitation and economic growth, with Eastern Indonesia showing significant lagging in these areas.

Income disparity has been a major focus of study in the context of Indonesia's economic development. Leasiwal et al. (2022) analyzed income disparities between Western and Eastern Indonesia, noting that while some provinces like Jakarta and North Kalimantan show rapid economic growth, others in the east, such as Papua and West Nusa Tenggara, remain underdeveloped. Their study also classified Indonesian provinces based on economic growth, revealing the divergence between the regions.

In addition to income disparity, the development of infrastructure plays a significant role in these regional gaps. A study by Nugraha and Prayitno (2020) found that while increasing investments in electricity distribution had a positive effect on reducing inequality in Western Indonesia, the development of road infrastructure actually contributed to increased inequality. The study suggests that improving infrastructure in both regions could play a key role in reducing economic disparity.

### The Role of Government Policies

Government interventions, such as fiscal decentralization and special autonomy laws, have been pivotal in addressing these disparities. Fadli (2016) examined the impact of fiscal decentralization on regional disparity, concluding that while decentralization can potentially reduce inequality, the allocation of funds varies significantly between the eastern and western regions. In particular, Western Indonesia, which has a higher degree of local government independence, benefited more from fiscal decentralization than the Eastern region, where dependence on the central government remains high.

Furthermore, the implementation of the Special Autonomy Law in Papua has sought to empower local governments in Eastern Indonesia. However, studies have found that this law has had limited success due to challenges such as corruption and inefficiencies in local governance.

## Education and Human Capital Development

Human capital disparities between Western and Eastern Indonesia significantly contribute to the economic gap. Azzizah (2015) explored how socio-economic factors such as education contribute to regional inequality. Her study showed that Eastern Indonesia has a higher rate of uneducated individuals compared to Western Indonesia, which further perpetuates the cycle of poverty and limits access to better economic opportunities.

## Infrastructure and Connectivity

Infrastructure development is crucial for bridging the regional divide. According to a study by Salsabillah et al. (2024), regional disparities in infrastructure have a direct correlation with economic development. While infrastructure development in Western Indonesia, including roads, ports, and airports, has facilitated trade and investment, Eastern Indonesia continues to lag in these areas. The study recommends greater investments in infrastructure to improve connectivity and reduce the regional development gap.

## Case Studies and Regional Development Initiatives

Various case studies have examined successful regional development initiatives in Eastern Indonesia. For example, Tajerin (2007) focused on the role of technological advancements in promoting economic convergence in the coastal regions of Eastern Indonesia. His study found that the adoption of new technologies could reduce economic disparity by improving productivity and income levels, particularly in rural coastal regions.

## METHOD

This study adopts a mixed-methods approach to explore the economic disparities between Western and Eastern Indonesia. Quantitative data from government reports and secondary sources, such as GDP per capita, poverty levels, unemployment rates, and infrastructure development, were analyzed to highlight key disparities. Additionally, qualitative insights were gathered through interviews with policymakers and regional experts to understand the challenges faced by Eastern Indonesia.

The study found that the primary factors contributing to the development gap include inadequate infrastructure, limited access to quality education, and uneven government policies. While Western Indonesia benefits from greater investment, better infrastructure, and more robust economic growth, Eastern Indonesia faces challenges in governance, human capital development, and logistical connectivity.

## RESULT AND DISCUSSION

### Economic Performance and Disparities

The economic analysis revealed a significant disparity in the economic performance of Western and Eastern Indonesia. Western Indonesia, particularly Java, has consistently outperformed Eastern Indonesia in terms of GDP per capita, industrialization, and urban development. Provinces such as Jakarta, West Java, and Sumatra are economic powerhouses, benefiting from well-established industries, infrastructure, and a high concentration of investment. In contrast, Eastern Indonesia, which includes provinces like Papua, Nusa Tenggara, and Maluku, remains largely dependent on primary sectors such as agriculture, mining, and fishing. This over-reliance on traditional industries has limited the region's ability to diversify and achieve sustained economic growth.

The results show that the GDP per capita in Western Indonesia is significantly higher than in Eastern Indonesia. The disparity is also reflected in the poverty rates, with many provinces in Eastern Indonesia experiencing poverty levels that are nearly double those in the west. Unemployment rates in Eastern Indonesia are similarly high, exacerbating the economic challenges faced by the region. This confirms previous findings that Western Indonesia continues to dominate the national economy, leaving the eastern regions in a state of economic stagnation.

### Infrastructure and Connectivity

Infrastructure development has been identified as one of the key factors driving the economic divide between Western and Eastern Indonesia. The study found that while Western Indonesia benefits from an advanced infrastructure network, including roads, ports, airports, and energy supply, Eastern Indonesia remains underserved in this regard. Transportation infrastructure in Eastern Indonesia, particularly in rural and remote areas, is limited, making it difficult for businesses to access markets, both locally and globally. This lack of infrastructure hinders the growth of industries, restricts trade, and limits job creation.

The development of road networks and port facilities in Eastern Indonesia has been slow, despite several government initiatives. The Trans-Papua Highway, for example, although a critical project, is still incomplete and faces significant logistical and budgetary challenges. Additionally, electrification rates in Eastern Indonesia are lower than in the western regions, leading to unreliable power supplies that further inhibit economic activity.

Investments in infrastructure are necessary to stimulate economic development in Eastern Indonesia. The construction of new ports and airports, combined with the improvement of road networks, would reduce transportation costs and improve connectivity between regions, boosting trade and investment.



## Human Capital Development

A major barrier to economic growth in Eastern Indonesia is the lack of investment in human capital. The study found that Eastern Indonesia lags significantly behind Western Indonesia in terms of education, healthcare, and skilled labor. Education outcomes, such as literacy rates and school enrollment, are lower in Eastern Indonesia, with many provinces struggling to provide adequate educational facilities. This contributes to a skills gap, where a large proportion of the workforce is employed in low-skilled, low-productivity sectors.

The healthcare system in Eastern Indonesia also faces significant challenges, with access to healthcare services being limited, especially in remote areas. As a result, health indicators such as life expectancy and infant mortality rates are worse in Eastern Indonesia compared to the western regions. The lack of a well-trained workforce further impedes the region's ability to develop industries that require higher skills, such as manufacturing, technology, and services.

Human capital development in Eastern Indonesia is crucial to breaking the cycle of poverty and creating long-term economic growth. Efforts to improve education, particularly at the secondary and tertiary levels, and investments in healthcare will be key to improving productivity and diversifying the regional economy.

## Government Policies and Regional Development

Government policies aimed at addressing regional disparities have shown mixed results. The Special Autonomy Law for Papua, implemented to empower local governments and promote development, has had limited success. While the law has provided some fiscal autonomy, challenges in governance, corruption, and the mismanagement of resources have hindered its effectiveness. Similarly, fiscal decentralization has not led to significant improvements in Eastern Indonesia. In fact, some studies show that the central government's dependence on the General Allocation Fund (DAU) has resulted in Eastern provinces being overly reliant on central transfers, limiting local governments' ability to make independent development decisions.

The Decentralization Policy, although well-intentioned, has led to uneven outcomes. While it has provided local governments with more decision-making power, many Eastern provinces lack the administrative capacity and resources to fully benefit from this autonomy. The Regional Gross Domestic Product (PDRB) in these provinces remains low, and the disparity in income and development persists.

Targeted policy reforms are needed to foster economic growth in Eastern Indonesia. Policies that focus on infrastructure development, education, healthcare, and investment promotion are critical for boosting economic

performance. Additionally, strengthening the institutional capacity of local governments will enable more efficient implementation of these policies.

### **Success Stories and Regional Initiatives**

Despite the overall disparity, there have been notable successes in Eastern Indonesia. The development of eco-tourism in Bali and Lombok, and the growth of the oil and gas industry in East Kalimantan, demonstrate that with the right policies, Eastern Indonesia can achieve economic growth. In particular, East Kalimantan has leveraged its natural resources to foster industrial growth, while Bali and Lombok have benefited from targeted investments in tourism infrastructure and marketing.

These case studies highlight the potential for sustainable development in Eastern Indonesia, particularly in sectors such as tourism, agriculture, and renewable energy. However, these successes remain isolated, and the broader region still faces significant challenges in achieving widespread economic development.

### **Policy Recommendations and Solutions**

To address the disparities between Western and Eastern Indonesia, several policy recommendations are proposed:

#### **1. Infrastructure Investment**

The government should prioritize infrastructure development in Eastern Indonesia, focusing on improving transportation networks, energy supply, and communication systems. This will reduce logistical costs and improve connectivity, facilitating trade and investment.

#### **2. Human Capital Development**

Investment in education and healthcare is critical to improving productivity and creating a skilled workforce. Expanding access to quality education and improving healthcare services will ensure that the people of Eastern Indonesia can participate fully in the economy.

#### **3. Decentralized Development**

Strengthening the capacity of local governments in Eastern Indonesia is essential for ensuring the effective implementation of development policies. Local governments should be empowered to manage resources more efficiently and implement policies tailored to the specific needs of their regions.

#### **4. Diversification of the Economy**

Encouraging the development of new industries, such as technology, manufacturing, and renewable energy, will help diversify the economy of Eastern Indonesia. Policies that promote innovation and entrepreneurship should be prioritized to reduce the region's dependence on traditional sectors.

#### **5. Targeted Investment**

The government should offer incentives to investors willing to establish businesses in Eastern Indonesia. This can include tax breaks, subsidies, and the establishment of special economic zones that attract both domestic and foreign investments.

## CONCLUSION

In conclusion, the study has examined the persistent economic disparities between Western and Eastern Indonesia, highlighting the key factors that contribute to the development gap. While Western Indonesia has consistently outperformed Eastern Indonesia in terms of economic performance, industrialization, and infrastructure development, the eastern regions remain constrained by issues such as inadequate infrastructure, limited access to quality education, and a lack of effective governance.

The findings of the study underscore the importance of infrastructure development, human capital investment, and the decentralization of policies as critical factors in addressing the development disparities. Western Indonesia's success in achieving higher economic growth is largely attributed to better infrastructure, more robust industrialization, and higher levels of investment. In contrast, Eastern Indonesia struggles with challenges related to poor connectivity, underdeveloped education and healthcare systems, and a lack of diversified industries, which continues to hinder its economic progress.

The study also reveals that while government policies aimed at reducing regional disparities, such as fiscal decentralization and special autonomy laws, have had some positive effects, they have not been fully effective in bridging the economic divide. The dependence on central government transfers, along with issues such as corruption and weak local governance, has impeded the ability of Eastern Indonesia to achieve sustainable development. Furthermore, the lack of capacity in local governments has made it difficult to implement policies effectively.

However, the research highlights some success stories in Eastern Indonesia, such as the development of eco-tourism in Bali and Lombok, as well as the growth of the oil and gas industry in East Kalimantan. These examples demonstrate that with the right policies and investments, Eastern Indonesia has the potential to overcome its developmental challenges and achieve economic growth.

The study concludes with several key recommendations to address the disparities between Western and Eastern Indonesia:

### 1. Investment in Infrastructure

Prioritizing infrastructure development, particularly in transportation, energy, and communication, is essential for boosting economic activity in Eastern Indonesia. Improved infrastructure will facilitate trade, reduce costs, and attract investments.



## 2. Human Capital Development

There is a pressing need to improve education and healthcare services in Eastern Indonesia. Investments in human capital will enhance productivity and help build a skilled workforce capable of contributing to higher-value industries.

## 3. Decentralized Development

Strengthening the capacity of local governments in Eastern Indonesia to manage resources and implement policies will ensure more efficient and effective development. This includes empowering local leaders to make decisions that reflect the specific needs of their regions.

## 4. Encouraging Economic Diversification

Encouraging the development of new industries, such as technology, manufacturing, and renewable energy, will help reduce Eastern Indonesia's reliance on traditional sectors like agriculture and mining.

## 5. Targeted Investments and Incentives

The government should create incentives for investors to establish businesses in Eastern Indonesia, particularly in underdeveloped provinces. Offering tax breaks, subsidies, and the establishment of special economic zones could stimulate investment and job creation.

By addressing these critical areas, Indonesia can work towards a more balanced development trajectory that ensures economic prosperity is shared across both Western and Eastern regions. Achieving this goal will require coordinated efforts from the government, private sector, and local communities, all of whom must work together to reduce regional disparities and foster a more inclusive and sustainable future for all of Indonesia.

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