

# *Analysis of Leading Economic Sector Development in Tebing Tinggi City*

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**Abstract** -The aim of the research is to analyze the development of leading economic sector in Tebing Tinggi. The method of analysis used in this research is klassen typology analysis, LQ analysis. The result showed that the economic potential of Tebing Tinggi City based on LQ analysis during the period of 2012-2016 shows that there are 13 (thirteen) base sectors in Tebing Tinggi City with  $LQ > 1$ , 1) Government Administration, Defense and Social Security Compulsory, 2) Educational Services, 3) Water Supply, Waste Management, Waste and Recycling, 4) Other Services, 5) Real Estate, 6) Provision of Accommodation and Drinking, 7) Transportation and Warehousing, 8) Financial Services and Insurance, 9) Electricity and Gas Procurement, 10) Health Services, 11) Construction, 12) Large & Retail Trade, Car & Motorcycle Repairs, and 13) Information and Communication.

**Keywords** - Regional Economy; Leading Economic Sector.

## **I. INTRODUCTION**

Regional economic development involves multi-sector and development actors, so cooperation and coordination among all interested parties is required. Local governments will be more fully responsible for the basic policies needed for regional development, particularly

those concerning the development of facilities and infrastructure, investment and access to financial resources, environmental policies, basic services (education and health) and human resource development.

This is one way to determine economic development policies at the local level, so that the

development of the region is oriented to develop regional potentials. According to Royat in Kuncoro and Aswandi, the leading economic region is defined as the driving force of the region's economy, which has a criterion as a fast growing region compared to other locations within a province or district that has a base sector and has economic linkages with the surrounding area.

Tebing Tinggi is one of the cities in North Sumatra Province. Like most urban areas that rely on trade and services, the economy of Tebing Tinggi City is also supported by both business fields. In 2015, the contribution of trade, hotel and restaurant business reached 25.46%, and the contribution of services business reached 22.31% of the total Gross Regional Domestic Product.

As a medium-class city, in the last two decades the Tebing Tinggi economy has grown rapidly along with the development of economic facilities such as trade, banking, industry, educational facilities, healthcare, communications and other supporting facilities. Economic development of Tebing Tinggi City is driven because of the strategic location of the Tebing Tinggi City which is the cross-lane of Sumatra

In addition, because Tebing Tinggi is a hinterland area that developed into an advanced city area, so most of the neighboring community use Tebing Tinggi City as the main alternative in fulfilling their needs, because access to the city is relatively closer, affordable, efficient and economical. This condition encourages the development of Tebing Tinggi City as a trading city, which is reflected in the prominent activity in the trade sector. In addition, the pattern of economic activity of Tebing Tinggi is gradually experiencing shifts and transitions where the role

of tertiary groups in the structure of GRDP is greater than the primary and secondary groups.

The location of Tebing Tinggi as the City of Trade and Services has an impact on the development of the region due to the City of Tebing Tinggi located on the inter-province route of North Sumatra so it is very supportive for the population to develop the trade and services business. One of the policies undertaken by the City Government of Tebing Tinggi to encourage regional development is through the program of empowering the people's economy with policies directed to develop Small and Medium Enterprises (SMEs). Currently more than 4000 SMEs operate in various business sectors. Since 2001 the City Government of Tebing Tinggi has channeled interest-free loans as capital assistance to 1,000 SMEs amounting to Rp 6.7 billion.

The potential of the trade sector and the substantial services sector in the economy of Tebing Tinggi City can affect the welfare of society, this is because the services sector, and the trade, hotel and restaurant sector can provide employment opportunities. In addition, the role of the City Government of Tebing Tinggi in providing ease of licensing and the security of investors to invest in Kota Tebing Tinggi will bring a positive impact on the economy.

Djoyohadikusumo [2] states that economic development is an effort to increase per capita income and reduce per capita productivity by adding capital and adding skills, or economic development is to increase the skill so that one another makes higher per capita income.

Krisnamurthi [3] states that successful economic development must have four basic dimensions, namely economic growth, poverty reduction, changes or transformation of economic

structure and sustainability of development. Jhingan (2010) states that economic development can not be achieved solely by removing barriers that hinder economic progress. The main requirement for economic development is that the growth process should depend on the ability of the domestic economy.

Mankiw [4] states that in the basic concept of macroeconomic, the indicator used in measuring economic growth, is gross domestic product (GDP). Gross Domestic Product (GDP) is the market value of all final goods and services produced in the economy over a period of time.

Based on the business field, GRDP is divided into nine sectors, while macroeconomically divided into three major groups called primary, secondary and tertiary sectors. Primary sector if its output is still a basic level process and very dependent on nature, including in this sector is agriculture sector and mining and quarrying sector. For the economic sectors whose output comes from the primary sector are grouped into the secondary sector, which includes the manufacturing sector, electricity, gas and drinking water sector as well as the building sector. While other sectors, namely trade, hotel and restaurant sector, transportation and communications sector, banking sector and other financial institution and service sector are grouped into tertiary sector [5].

The growth of industries using local resources, including labor and raw materials for export, will generate local wealth and job creation [6]. This assumption gives an understanding that an area will have a leading economy sector if the region can win the competition in the same sector with other regions so that it can produce exports. To analyze the economic base of a region, one of the commonly used techniques is location quotient (Location Quotient, LQ).

A key issue in regional development lies in emphasizing development policies based on endogenous development using local human resource, institutional and physical resource potentials [6].

According to Rachbini [7] there are four conditions for a particular sector to be a priority sector, (1) the sector must produce products that have considerable demand, so the rate of growth grows rapidly as a result of the demand effect; (2) creatively adopted technological change, so that new production shifts into a wider capacity; (3) increased investment return from the priority sector's production output.

Blair in Nugroho and Dahuri [8] mentions that in analyzing the region has three types, as follows:

1. Functional areas, interacting between components inside and outside their territory, the shape of the region is often called the nodal region based on the hierarchical system of a relationship between the trade nodes.
2. Homogeneous region means the relative similarity in the region.
3. Administrative regions mean the region which formed for the benefit of management areas or organizations by governments and other parties.

Regional development is intended to minimize growth gaps and inequality between regions. In the national context, the development gap between regions has resulted in the absence of overall national development objectives.

### **Research question:**

What sectors are the leading sector in the economy of Tebing Tinggi City?

## II. MATERIAL AND METHODS

This research uses descriptive method with quantitative approach. The data used are secondary data sourced from the Central Bureau of Statistics with data types showing cross section over the period of five years from 2012 - 2016, and other sources, such as related journals and research in this study.

To answer the research problem about the sectors that become the leading sector in the economy of Tebing Tinggi city by using Klassen

Tipologi analysis and Location Quotient (LQ) analysis.

### Hypothesis

The trade and services sector is the base sector in the economy of Tebing Tinggi City.

Data collection techniques used are literature study, observation, interview. Data collection tools used are interview and questionnaire guidelines.

The data analysis technique used is different test using Wilcoxon Match Pair Test method.

Table 1. Research Variables

| No | Variabel                               | Definition                                                                                                                                   | Indicator             |
|----|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| 1  | Economic growth                        | Gross Regional Domestic Product (GRDP) of the studied area which in its presentation is grouped into (nine) business field groups (sectors). | constant price        |
| 2  | Gross Regional Domestic Product (GRDP) | Gross added value arising from all sectors of the economy over a period of time                                                              | constant price        |
| 3  | Contribution of GRDP                   | The existence of changes in community life for the better with the program                                                                   | %                     |
| 4  | Economic sectors                       | Sectors that make up the GRDP value and play a role in determining the rate of economic growth                                               | 17 (nine) key sectors |
| 5  | Base sector                            | Sectors that have a relatively large role compared to other sectors to the regional economy (GRDP) Tebing Tinggi City                        |                       |
| 6  | Strategy in leading sector development | The policies of Tebing Tinggi City government in improving the development of leading sector                                                 |                       |

## III. RESULT

Table 2. High Sectoral Economic Growth in Tebing Tinggi City  
2014 - 2016

| No | Business field                                      | Growth (%) |      |       |
|----|-----------------------------------------------------|------------|------|-------|
|    |                                                     | 2014       | 2015 | 2016  |
| 1. | Agriculture, Forestry and Fisheries                 | 1.17       | 5.29 | 4.59  |
| 2. | Mining and quarrying                                | 4.46       | 4.10 | 3.95  |
| 3. | Processing industry                                 | 0.4        | -1,7 | 2.97  |
| 4. | Procurement of Electricity and Gas                  | 8.77       | 8.23 | 3.40  |
| 5. | Water Supply, Waste Management, Waste and Recycling | 9.54       | 8.97 | 3.80  |
| 6. | Construction                                        | 2.37       | 1.57 | -0.47 |
| 7. | Wholesales & Retail, Car Repair & Motorcycles       | 8.33       | 8.63 | 8.99  |

|     |                                                                     |      |      |      |
|-----|---------------------------------------------------------------------|------|------|------|
| 8.  | Transportation and Warehousing                                      | 6.82 | 6.51 | 6.66 |
| 9.  | Accommodation and Restaurant                                        | 4.82 | 4.96 | 5.02 |
| 10. | Information and Communication                                       | 5.13 | 5.22 | 5.78 |
| 11. | Financial Services and Insurance                                    | 3.89 | 3.22 | 2.57 |
| 12. | Real Estate                                                         | 4.39 | 4.45 | 4.83 |
| 13. | Service Company                                                     | 3.86 | 2.07 | 2.96 |
| 14. | Mandatory Administration of Government, Defense and Social Security | 7.57 | 7.71 | 1.82 |
| 15. | Educational Services                                                | 4.37 | 4.11 | 3.80 |
| 16. | Health Services                                                     | 7.50 | 7.62 | 3.64 |
| 17. | Other Services                                                      | 4.62 | 3.32 | 3.18 |
|     | GRDP                                                                | 5.45 | 4.90 | 5.11 |

Source: Central Bureau of Statistics Tebing Tinggi City, 2017

In the economic structure of Tebing Tinggi City, there is a shift from leading business field, forestry, and fishery to other economic business field which is seen from the contribution of each business field to GRDP of Tebing Tinggi City. The largest contribution to GRDP 2016 is generated by the field of large and retail trade; Car

and Motorcycle Repair 21.51%, followed by Construction 14.19%, Manufacturing Industry 13.12%, and Administration of Government, Defense and Social Security Compulsory 12.27%. While other business field has a percentage below 10%

Table 3. The Role of Gross Regional Domestic Product (%) Year 2014 - 2016

| No  | Business Field                                                      | (%)    |        |        |
|-----|---------------------------------------------------------------------|--------|--------|--------|
|     |                                                                     | 2014   | 2015   | 2016   |
| 1.  | Agriculture, Forestry and Fisheries                                 | 1.41   | 1.35   | 1.31   |
| 2.  | Mining and quarrying                                                | 0.17   | 0.16   | 0.16   |
| 3.  | Processing industry                                                 | 14.40  | 13.49  | 13.12  |
| 4.  | Procurement of Electricity and Gas                                  | 0.15   | 0.14   | 0.13   |
| 5.  | Water Supply, Waste Management, Waste and Recycling                 | 0.21   | 0.22   | 0.24   |
| 6.  | Construction                                                        | 14.00  | 14.20  | 14.19  |
| 7.  | Wholesales & Retail, Car Repair & Motorcycles                       | 20.02  | 20.70  | 21.51  |
| 8.  | Transportation and Warehousing                                      | 7.83   | 7.90   | 8.01   |
| 9.  | Accommodation and Restaurant                                        | 4.31   | 4.27   | 4.15   |
| 10. | Information and Communication                                       | 1.98   | 1.92   | 1.88   |
| 11. | Financial Services and Insurance                                    | 5.86   | 5.81   | 5.56   |
| 12. | Real Estate                                                         | 8.27   | 8.31   | 8.36   |
| 13. | Service Company                                                     | 0.50   | 0.49   | 0.50   |
| 14. | Mandatory Administration of Government, Defense and Social Security | 11.88  | 12.28  | 12.27  |
| 15. | Educational Services                                                | 6.93   | 6.66   | 6.57   |
| 16. | Health Services                                                     | 1.07   | 1.08   | 1.08   |
| 17. | Other Services                                                      | 1.02   | 1.00   | 0.98   |
|     | GRDP                                                                | 100.00 | 100.00 | 100.00 |

Source: Central Bureau of Statistics Tebing Tinggi City, 2017

Table 4. Growth Rate and Contribution of GDP Sector of Tebing Tinggi City and North Sumatera Province Year 2014-2016

| No  | Business Field                                                      | Tebing Tinggi |                    | North Sumatera  |                   |
|-----|---------------------------------------------------------------------|---------------|--------------------|-----------------|-------------------|
|     |                                                                     | Growth (Si)   | Contribution (Ski) | Growth (Si) (S) | Contribution (Sk) |
| 1.  | Agriculture, Forestry and Fisheries                                 | 3.68          | 1.36               | 4.90            | 24.88             |
| 2.  | Mining and quarrying                                                | 4.17          | 0.16               | 3.61            | 1.32              |
| 3.  | Processing industry                                                 | 1.12          | 13.67              | 2.70            | 19.57             |
| 4.  | Procurement of Electricity and Gas                                  | 6.80          | 0.14               | 5.11            | 0.13              |
| 5.  | Water Supply, Waste Management, Waste and Recycling                 | 7.44          | 0.22               | 6.40            | 0.10              |
| 6.  | Construction                                                        | 1.16          | 14.13              | 5.97            | 12.30             |
| 7.  | Wholesales & Retail, Car Repair & Motorcycles                       | 8.65          | 20.74              | 5.69            | 17.54             |
| 8.  | Transportation and Warehousing                                      | 6.66          | 7.91               | 5.77            | 4.58              |
| 9.  | Accommodation and Restaurant                                        | 4.93          | 4.24               | 6.66            | 2.24              |
| 10. | Information and Communication                                       | 5.38          | 1.93               | 7.37            | 2.51              |
| 11. | Financial Services and Insurance                                    | 3.23          | 5.74               | 4.63            | 3.13              |
| 12. | Real Estate                                                         | 4.56          | 8.31               | 6.08            | 4.11              |
| 13. | Service Company                                                     | 2.96          | 0.50               | 6.19            | 0.87              |
| 14. | Mandatory Administration of Government, Defense and Social Security | 5.70          | 12.14              | 4.91            | 3.28              |
| 15. | Educational Services                                                | 4.09          | 6.72               | 5.43            | 2.02              |
| 16. | Health Services                                                     | 6.25          | 1.08               | 7.10            | 0.92              |
| 17. | Other Services                                                      | 3.71          | 1.00               | 6.74            | 0.49              |
|     | GRDP                                                                | 5.15          | 100,00             | 3.47            | 100,00            |

Source: GRDP Tebing Tinggi City and GRDP of North Sumatra Province

In Table 4. it is seen that the sectors that have the greatest contribution to GRDP Tebing Tinggi City is the sector of Large & Retail Trade, Car & Motorcycle Repair, followed by construction sector, manufacturing industry sector and Government Administration, Defense and Social

Security Mandatory. The sectors that have the lowest average contribution are the electricity and gas procurement sector, and the mining and quarrying sectors. The largest average growth is shown by the sector of Large & Retail Trade, Car & Motorcycle Repair, Water Supply Sector,

Waste Management, Waste and Recycling, Electricity and Gas Procurement Sector, Transport and Legal Sector, and Healthcare sector. The sectors that have the smallest average growth are

manufacturing industry sector and construction sector.

Table 5. Classification of GRDP Sector of Tebing Tinggi City 2014-2016  
based on Klassen Typology

| Quadrant I                                                                                                                                                                                                                                                                                                       | Quadrant II                                                                                                                                                                                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>developed sector</i><br>$si > s$ and $ski > sk$<br>Procurement of Electricity and Gas<br>Water Supply, Waste Management, Waste and Recycling<br>Wholesales & Retail, Car Repair & Motorcycles<br>Transportation and Warehousing Sektor<br>Mandatory Administration of Government, Defense and Social Security | <i>stagnant sector</i><br>$si < s$ and $ski > sk$<br>Construction<br>Accommodation and Restaurant<br>Financial Services and Insurance<br>Real Estate<br>Educational Services<br>Health Services<br>Other Services |
| Quadrant III                                                                                                                                                                                                                                                                                                     | Quadrant IV                                                                                                                                                                                                       |
| <i>developing sector</i><br>$si > s$ and $ski < sk$<br>Mining and quarrying                                                                                                                                                                                                                                      | <i>underdeveloped sector</i><br>$si < s$ and $ski < sk$<br>Agriculture, Forestry and Fisheries Sektor<br>Processing industry<br>Information and Communication<br>Service Company                                  |

Source: GRDP Tebing Tinggi City, 2017

In accordance with the results of the analysis in Table 5, there are 5 (five) sectors, namely Electricity and Gas Procurement Sector sector, Water Supply Sector, Waste Management, Waste and Recycling, Large & Retail Trade Sector, Car & Motorcycle Repair, Transportation and Warehouse Sector, and the Governmental Administration, Defense and Social Security Sector which can be categorized as a developed and growing rapidly sector. Sectors that are potentially developing include the Mining and

Quarrying sectors. The results of the analysis also show that 7 (seven) sectors in Tebing Tinggi city are classified into stagnant sectors such as Construction, Accommodation and restaurant, Financial Services and Insurance, Real Estate, Education Service, Health Services, and Other Service. In addition, 4 (four) sectors are classified into underdeveloped sectors, Forestry and Fisheries, Processing Industry, Information and Communication, and Service Companies.



Table 6. Results LQ Value Tebing Tinggi City PDRB Year 2012-2016

| No  | Business Field                                                      | LQ    |       |       |       |       |         | Rank |
|-----|---------------------------------------------------------------------|-------|-------|-------|-------|-------|---------|------|
|     |                                                                     | 2012  | 2013  | 2014  | 2015  | 2016  | Average |      |
| 1.  | Agriculture, Forestry and Fisheries                                 | 0.061 | 0.060 | 0.058 | 0.058 | 0.058 | 0.059   |      |
| 2.  | Mining and quarrying                                                | 0.159 | 0.133 | 0.132 | 0.130 | 0.127 | 0.136   |      |
| 3.  | Processing industry                                                 | 0.783 | 0.770 | 0.749 | 0.712 | 0.702 | 0.743   |      |
| 4.  | Procurement of Electricity and Gas                                  | 1.283 | 1.396 | 1.386 | 1.470 | 1.465 | 1.400   | 9    |
| 5.  | Water Supply, Waste Management, Waste and Recycling                 | 2.338 | 2.397 | 2.444 | 2.499 | 2.554 | 2.446   | 3    |
| 6.  | Construction                                                        | 1.181 | 1.174 | 1.166 | 1.174 | 1.185 | 1.176   | 11   |
| 7.  | Wholesales & Retail, Car Repair & Motorcycles                       | 1.125 | 1.138 | 1.156 | 1.193 | 1.220 | 1.166   | 12   |
| 8.  | Transportation and Warehousing                                      | 1.706 | 1.711 | 1.728 | 1.745 | 1.755 | 1.729   | 7    |
| 9.  | Accommodation and Restaurant                                        | 2.126 | 2.063 | 2.026 | 1.992 | 1.965 | 2.035   | 6    |
| 10. | Information and Communication                                       | 1.063 | 1.057 | 1.034 | 1.018 | 0.999 | 1.034   | 13   |
| 11. | Financial Services and Insurance                                    | 1.752 | 1.721 | 1.739 | 1.678 | 1.654 | 1.709   | 8    |
| 12. | Real Estate                                                         | 2.135 | 2.101 | 2.053 | 2.032 | 2.012 | 2.067   | 5    |
| 13. | Service Company                                                     | 0.582 | 0.584 | 0.567 | 0.548 | 0.533 | 0.563   |      |
| 14. | Mandatory Administration of Government, Defense and Social Security | 3.161 | 3.267 | 3.280 | 3.344 | 3.341 | 3.279   | 1    |
| 15. | Educational Services                                                | 3.249 | 3.205 | 3.138 | 3.116 | 3.085 | 3.159   | 2    |
| 16. | Health Services                                                     | 1.274 | 1.229 | 1.235 | 1.242 | 1.200 | 1.236   | 10   |
| 17. | Other Services                                                      | 2.356 | 2.318 | 2.261 | 2.193 | 2.126 | 2.251   | 4    |

Source: Central Bureau of Statistics Tebing Tinggi City, 2017

The calculation result of LQ GRDP Tebing Tinggi City from observation period year 2012-2016 can be identified base and non base sectors, indicating that there are 13 (thirteen) base sector in Kota Tebing Tinggi having LQ> 1 value, that is : 1) Government Administration, Defense and Social Security, 2) Educational Services, 3) Water Supply, Waste Management, Waste and

Recycling, 4) Other Services, 5) Real Estates, 6) Provision of Accommodation and Restaurant, 7) Transportation and Warehousing, 8) Financial Services and Insurance, 9) Electricity and Gas Procurement, 10) Health Services, 11) Construction, 12) Large & Retail Trade, Repair Cars & Motorcycles, and 13) Information and Communication.



These results indicate that these sectors are the basic sectors that have good economic strength and very influential on the increase of economic growth

#### IV. DISCUSSION

The results of classes typology analysis show that there are 5 (five) sectors, Electricity and Gas Procurement, Water Supply, Waste Management, Waste and Recycling, Large & Retail Trade, Car & Motorcycle Repair, Transportation and Warehousing, and Administration of Government, Defense and Mandatory Social Security that can be categorized as developed sector.

The calculation of LQ values indicates that the basic sectors in Tebing Tinggi City with  $LQ > 1$  value are as follows: 1) Mandatory Government, Defense and Social Security Administration 2) Education Services 3) Water Supply, Waste Management, Waste and Recycling Birth, 4) Other Services, 5) Real Estates, 6) Provision of Accommodation and Restaurants, 7) Transportation and Warehousing, 8) Financial Services and Insurance, 9) Electricity and Gas Procurement, 10) Health Services, 11) Construction, 12) Wholesales & Retail, Car & Motorcycle Repair, and 13) Information and Communication.

Based on the results of Klassen typology analysis and LQ analysis above, it can be seen that the Procurement of Electricity and Gas, Water Supply, Waste Management, Waste and Recycling, Big & Retail Trade, Car & Motorcycle Repair, Transportation and Warehousing, and Administration of Government, Defense and Security Social Mandatory is a developed sector based on klassen typology and based on LQ analysis is the base sector.

The analysis of the determination of the leading sector is needed as the basis for the formulation of the policy pattern of future economic development of Tebing Tinggi City, so that the policy of economic development can be directed to drive the leading sectors. The City Government of Tebing Tinggi can determine budget allocation and priority for superior sector significantly to improve the development or economic growth of the region, thus encouraging the achievement of social welfare.

This result is in line with the development vision of Kota Tebing Tinggi in 2011-2016 as a "Service City" which wants to realize the City becoming a regional trade center, the transit area to Medan city and supported by the emergence of new cities, markets with special products and others by harmonizing with the development of traditional trading centers. As a City of commerce, the City Tebing Tinggi economy has an important role to expand the market and to support an open economy.

#### V. CONCLUSION AND SUGGESTION

##### A. Conclusion

The leading sector in the economy of Tebing Tinggi City based on LQ analysis during the period 2012-2016 shows that there are 13 (thirteen) base sectors in Tebing Tinggi City which have  $LQ > 1$ , 1) Government Administration, Defense and Social Security Mandatory, 2) Services Education, 3) Water Supply, Waste Management, Waste and Recycling, 4) Other Services, 5) Real Estate, 6) Provision of Accommodation and Restaurants, 7) Transportation and Warehousing, 8) Financial Services and Insurance, 9) Electricity Procurement and Gas, 10) Health Services, 11) Construction, 12) Large & Retail Trade, Car &

Motorcycle Repair, and 13) Information and Communication. Based on the klassen typology there are 5 (five) sectors, Electricity and Gas Procurement, Water Supply, Waste Management, Waste and Recycling, Large & Retail Trade, Car & Motorcycle Repair, Transportation and Warehousing, and Government Administration, Defense and Social Security which can be categorized as developed sectors.

## B. Suggestions

There is a need for the policy of the City Government of Tebing Tinggi by prioritizing specialization in the leading sector. It is very important that the development policies set forth in the form of programs and activities can be targeted so that the imbalance between one region with other areas can be minimized.

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