

ABSTRACT

Industrial agglomeration, which is concentrated in certain regions of Indonesia due to differences in natural resources and geographical conditions, has the potential to exacerbate regional inequality. This study aims to analyze the impact of industrial agglomeration on regional inequality in Indonesia during the period 2015–2022, with control variables including Gross Regional Domestic Product (PDRB), Foreign Direct Investment (PMA), and population size.

This research uses the Fixed Effect Model (FEM) with the Least Squares Dummy Variable (LSDV) approach to analyze the impact of industrial agglomeration on regional inequality across Indonesia during the 2015–2022 period. The Williamson Index is used in this study to measure the degree of economic inequality between provinces, while the Balassa Index is used to measure industrial agglomeration. To provide more specific insights, the data is divided into three groups: Indonesia as a whole, Java Island, and Outside Java, to understand the different impacts of industrial agglomeration across regions. The study examines data from 34 provinces in Indonesia over the period 2015–2022.

The results indicate that industrial agglomeration has a positive and significant effect on regional inequality across Indonesia, particularly outside Java. PDRB also shows a positive and significant effect on regional inequality both nationally and in Java. Meanwhile, PMA show a significant effect on regional inequality. Additionally, population size does not have a significant impact on regional inequality.

Keywords: Industrial Agglomeration, Regional Inequality, PDRB, Foreign Direct Investment, Population Size, Fixed Effect Model LSDV