ABSTRACT

Indonesian economy is dominated by western Indonesia, but per capita output convergence has potentially occurred due to the presence of developing regions that exhibit higher per capita output growth. This study aims to identify the effects of economic variables and spatial dependence on the speed and time of per capita output convergence in Indonesia. Data used consists of 34 provinces for the period 2010-2023, which are analyzed using spatial autoregressive. This study presents novelty by dividing data sample into western and eastern Indonesia, and using adjusted per capita GRDP as a representation of per capita output. This study finds that sigma convergence occurs only in eastern Indonesia, while beta convergence occurs in both western and eastern Indonesia, with absolute convergence rates of 5.88% and 3.61%, respectively, and convergence periods of 11.78 years and 19.16 years. PMTB, PBAK, internet access, and trade openness have a significant positive effect, while initial per capita output and population growth have a significant negative effect. However, average years of schooling has a non-significant negative effect on per capita output growth. In addition, there is a spatial dependence that accelerates convergence speed of per capita output, but its effect is lower in eastern Indonesia due to lower production factor and its archipelagic geography. Stakeholders are expected to create equitable internet access and job opportunities in eastern Indonesia, as well as improve the quality of education to align it with labor market needs in both western and eastern Indonesia.

Keywords: *Economic Growth, Per Capita Output Convergence, Physical Capital, Spatial Autoregressive*