

ABSTRACT

The economy of a region does not work independently, but is also influenced by the economy of the surrounding region. Market size and regional interaction patterns are important factors in explaining the economic growth of a region. This research aims to explain the direct and indirect influence of market potential, human capital, physical capital, population growth, and migration variables on economic growth in 34 Indonesian provinces in 2018-2022. This research uses the Mankiw-Romer-Weil (MRW) spatial growth concept and New Economic Geography (NEG) which emphasizes market access as a factor in regional economic growth.

This research uses a quantitative approach with secondary panel data and the Spatial Durbin Model (SDM) analysis method. This model is used in this research because it can not only explain the direct influence in a region, but can also explain the indirect influence between regions along with independent variables. The Moran's I test on GDP per capita shows positive spatial autocorrelation, indicating strong economic linkages between regions. K-Nearest Neighbors (KNN) is used as a spatial weight because it takes into account the geographical conditions of Indonesian provinces which are separated by islands. Diagnostic tests and deviations from classical assumptions were carried out to ensure the validity of the model.

The research results show that market potential, physical capital, and migration have a significant positive direct effect on GDP per capita. The research results also show a significant positive indirect effect of physical capital and migration on GDP per capita. The market potential variable has a negative and significant effect. These results illustrate the importance of the market size of a region in local economic growth efforts. Strengthening cooperation between regions through mechanisms for the flow of investment, human resources and technology is needed to strengthen interaction between regions which can then encourage sustainable economic growth.

Keywords: regional growth, market potential, new economic geography, spatial durbin model.