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Analysis of the Impact of Sectoral Growth Rates on Income Inequality in Indonesia

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A B S T R A C T

Income inequality remains one of the major issues in the economy, particularly in developing countries such as Indonesia. According to several studies, income inequality is closely related to sectoral growth. This study focuses on three sectors that contribute the most to Indonesia's Gross Domestic Product (GDP), namely the industrial sector, the trade sector, and the agricultural sector, while also examining the role of the government in both sectoral growth and income inequality. This research is conducted using a literature review method by selecting relevant journal articles from various sources. The findings reveal that the agricultural sector has the most stable influence in reducing income inequality, whereas the trade and industrial sectors show more complex results. Additionally, the government plays a significant role in driving sectoral growth as well as influencing income inequality.

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INTRODUCTION

Indonesia, as a developing country, is currently undergoing a structural transformation from traditional agriculture toward more modern sectors such as agriculture, manufacturing industry, and services (Andriansyah, Nurwanda, & Rifai, 2021). This transformation aligns with the government's plan as outlined in the National Long-Term Development Plan (RPJPN) 2024–2025, formulated by Bappenas, which includes strategies for achieving the vision of "Indonesia Emas 2045" (Samingan, 2024).

In general, development can be defined as a process of realizing positive change through a series of conscious and planned efforts (Vélastegui, 2020). In a broader sense, development—particularly economic development—encompasses both financial aspects, involving all activities related to money and financial institutions, and real sectors, including sectoral development that focuses on structural transformation. This also relates to various sectors and subsectors at the regional level and can be classified as part of regional and local economic development (Buchholz & Bathelt, 2021).

The main goal of development is to create justice and welfare. Justice and welfare can only be achieved through equitable development, particularly in the area of economic development (Eswaraiah, 2025). However, the development process still faces several challenges, making its implementation far from easy. One of the persistent issues is the unequal distribution of income, commonly referred to as income inequality (Furceri & Ostry, 2019).

Over the past decade, Indonesia has experienced fluctuations in income inequality, which can be observed and measured through the Gini ratio. The trend of Indonesia's Gini ratio over time can be illustrated as follows.

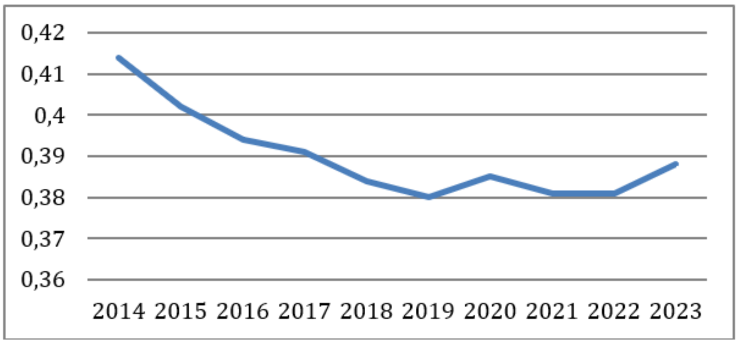

Figure 1. *Indonesia's Gini Ratio Data for the Last 10 Years*
Source: Badan Pusat Statistik (2024)

Figure 1 shows the trend of income inequality in Indonesia from 2014 to 2023. Overall, income inequality generally declined steadily from 2014 to 2019, with a slight increase in 2017. However, income inequality rose again in 2020 and 2023 (Handayani et al., 2022). On average, the Gini ratio over the last decade has remained around 0.39, reflecting a moderate level of income inequality (Hanandita & Tampubolon, 2015). Several studies highlight a correlation between income inequality and economic growth, particularly growth across different sectors.

There are three key sectors that contribute the most to Indonesia's GDP: the agricultural sector, the industrial sector, and the trade sector (Muda & Dharsuky, 2019). In 2023, the agricultural and trade sectors contributed 12.4% and 12.8% respectively to the total GDP, while the industrial sector contributed 18.3%. Sectoral growth is undoubtedly influenced by government intervention, especially in guiding Indonesia's transition from traditional agriculture to more advanced and modern sectors (Boix, 2001). Hence, the government's contribution to the growth of these sectors also warrants examination.

However, according to several studies, only the agricultural and trade sectors exhibit a negative correlation with income inequality. In other words, as these sectors grow, income inequality tends to decrease. For instance, research by Afriyanti et al. (2023) found that the trade and construction sectors play a significant role in driving economic growth, while the agricultural sector—specifically other crop sectors—had the greatest impact on reducing inequality in Indonesia.

Furthermore, research by Kata & Wosiek (2020) showed that the agricultural sector has a negative and significant effect on income inequality, suggesting that any increase in this sector leads to a decrease in inequality. This is consistent with findings by Mata, Jalil, and Harun (2020) who conducted a regression and correlation analysis in Jepara Regency and found that agriculture plays a key role in reducing income inequality in the region, with a correlation coefficient of 0.733. This means that about 53.72% of the variation in income inequality in Jepara can be explained by developments in the agricultural sector.

Similarly, research by Tang and Sun (2022) affirmed the negative and significant impact of agriculture on inequality, indicating that growth in agriculture reduces inequality. Conversely, the industrial sector was found not to have a significant effect on inequality. Despite its contribution to GDP, the industrial sector's influence on income distribution remains relatively weak.

These findings are further supported by González (2023), who noted that growth in the industrial sector tends to increase inequality. This assertion is reinforced by Wen, Xiao, and Hu (2024), who explained that industrial development often focuses on certain regions, thereby exacerbating regional income disparities. Consequently, the relationship between industrial growth and income inequality is positive.

Moreover, Anderson (2020) explored the impact of the trade sector on inequality. Their research indicates that trade can help reduce income inequality, but effective policy measures are necessary to ensure that the benefits are equitably distributed. In contrast, Fereira and Cateia (2023) found that trade alone does not directly reduce inequality, suggesting that interactions with other sectors and the quality of infrastructure are critical to achieving this outcome.

Based on these studies, it can be concluded that the agricultural sector plays a significant role in reducing income inequality, while the industrial sector tends to increase it. Given the substantial contribution of the industrial sector to GDP, further

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investigation is required to understand why this sector's growth leads to greater inequality. The trade sector, on the other hand, shows an inconsistent effect on inequality, highlighting the need for further research.

Therefore, this study aims to examine the extent to which the agricultural, trade, and industrial sectors influence income inequality in Indonesia; to assess the role of government in promoting sectoral growth and addressing inequality; and to analyze the factors contributing to the paradox of rising inequality despite the industrial sector being the largest contributor to national GDP.

LITERATURE REVIEW

1. Economic Growth Theories

According to Sukirno (as cited in Nasution et al., 2023), economic growth refers to the improvement of a country's financial conditions, including the increased quantity and production of manufactured goods, infrastructure development, the expansion of educational institutions, as well as advancements in economic planning and other developmental aspects. In macroeconomic analysis, a country's economic growth is measured by Gross Domestic Product (GDP), including GDP exported to other countries. Upon further analysis, this concept illustrates that the primary priority in economic growth is directing development towards industrialization, where productivity reaches its maximum level. Therefore, the accumulation of foreign exchange reserves and individual contributions are regarded as fundamental indicators of growth.

Several theories of economic growth have been proposed by economists, including classical economic growth theory as formulated by economists such as Adam Smith and David Ricardo, the neoclassical economic growth theory by Robert Solow, and lastly, the endogenous economic growth theory.

The classical economic theory focuses on the relationship between population growth and available resources. According to Erikson and Shirado (2021), economic development requires the implementation of specialization and the division of labor. Specialization and division of labor can increase output as each worker becomes more skilled in their specific field. Moreover, division of labor reduces wasted time during job transitions and promotes innovation in tools or machinery that accelerate production. However, the success of such division must be supported by capital accumulation through savings and market expansion. International trade can expand both domestic and global markets. Once the division of labor, capital accumulation, and market expansion are adequately established, labor productivity will increase, subsequently enhancing national income, social welfare, and population growth.

Meanwhile, David Ricardo's theory of economic growth emphasizes the importance of comparative advantage in international trade, whereby each country should produce goods that it can generate at a relatively lower cost compared to others. This drives specialization and improves global welfare. Ricardo also discusses income distribution among landlords, capitalists, and laborers, focusing on how land rent tends to rise while capitalists' profits decline due to diminishing returns in the agricultural sector. According to Ricardo, economic growth will slow down due to the limited productivity of land, and the economy will eventually reach a stationary state unless technological innovations or market expansion occur to enhance productivity and extend the trajectory of economic growth.

The next theory is the neoclassical growth theory as proposed by Robert Solow. Neoclassical economics itself is an approach in economic science that attempts to explain price formation, production, and income distribution through various theoretical perspectives. According to Battisti, Del Gatto, and Parmeter (2018), this theory emphasizes the role of capital accumulation, labor, and technological progress in driving long-term economic growth. Solow demonstrated that economic growth does not solely depend on the increase of capital or labor but also relies on technological innovation that enhances productivity. In the Solow model, technological progress is the primary factor determining long-term growth, as capital and labor are subject to diminishing marginal returns. This model also highlights the importance of investment in technology and human capital to sustain long-term economic growth.

Lastly, there is the endogenous growth theory. According to Epicoco (2020), this theory explains that economic growth is not only influenced by external factors, such as technological advancement considered exogenous in the neoclassical theory, but also by internal (endogenous) factors within an economy. Elements such as innovation, human capital development, research and development (R&D), and education play critical roles in promoting long-term economic growth. This theory posits that investment in human capital and R&D can generate new technological discoveries and increase productivity, thereby driving sustainable growth from within the economic system itself.

Based on the aforementioned economic growth theories, their relevance can be linked to sectoral growth through mechanisms of specialization, innovation, and technology. The classical theory underscores the importance of specialization and division of labor, which enhance productivity particularly in the agricultural and industrial sectors. Ricardo's theory highlights comparative advantage in international trade, fostering growth in the trade sector by reducing production costs. The neoclassical theory, which focuses on capital accumulation and technological advancement, is applicable to both the industrial and agricultural sectors, wherein technology helps overcome diminishing marginal returns and improve efficiency. Meanwhile, the endogenous growth theory emphasizes the role of innovation, human capital, and R&D in fostering sustainable growth across all sectors, especially through investment in technology and human resource development. Collectively, these theories explain how internal and external factors synergistically contribute to accelerating sectoral economic growth in various fields.

2. Income Inequality

Berman, Ben-Jacob, and Shapira (2016) define income inequality as an issue related to the distribution of income among different groups within a region. According to Pinheiro, Balland, Boschma, and Hartmann (2022), inequality is a side effect that arises from imbalances in the economic development process. When a region focuses solely on economic growth, it does not necessarily guarantee equitable income distribution or the overall welfare of the population.

Clark (2023) explains income inequality as a condition in which income is distributed unevenly among the population. This condition is influenced by the level of development, ethnic heterogeneity, and is also associated with dictatorial regimes and governments that fail to uphold property rights. Income inequality typically occurs between high-income and low-income groups within society.

Thus, income inequality can be summarized as an issue of uneven income distribution among groups within a particular region, often caused by unequal economic development. Development that prioritizes economic growth alone does not ensure equitable income distribution or the improvement of public welfare. Contributing factors include the level of development, ethnic diversity, and government policy, which collectively influence the disparity between high-income and low-income populations.

A high degree of development inequality may result in social problems, thereby requiring governments to formulate policies that promote equitable development. Research by Amara, S. (2020) asserts that high income inequality is at the core of development challenges, particularly in developing countries. Furthermore, Amara, S. (2020 states that extreme income inequality can lead to various negative consequences such as economic inefficiency, weakened social stability, and perceptions of injustice. Income inequality can also heighten the risk of conflict, increase socio-political instability, reduce aggregate investment, and result in an inefficient economy (Adom, Agradi, & Vezzulli, 2021; Hakam & Hakam, 2024).

Income inequality is commonly measured using several key indicators, one of which is the Gini coefficient. This metric quantifies income distribution within a population, with values ranging from 0 (perfect equality) — indicating no inequality — to 1 (maximum inequality) — indicating severe disparity.

3. Sectoral Growth Rate

Indonesia's economy is composed of various sectors that significantly contribute to national growth. To understand the dynamics of this growth, it is essential to analyze the trends and factors that may support or hinder the growth rate of each sector. The sectoral growth rate serves as an indicator that reflects the extent of each sector's contribution to the country's total Gross Domestic Product (GDP). Given the complexity of Indonesia's economic structure, sectoral analysis is critical for understanding how different sectors interact and contribute to the overall economic growth of the nation.

Based on GDP growth data, three sectors consistently contribute substantially each year: the industrial sector, the trade sector, and the agricultural sector. The development of each sectoral growth rate is outlined below:

1. Agricultural Sector

The agricultural sector remains one of the fundamental pillars of the economy, particularly in developing countries like Indonesia. It plays a pivotal role in job creation, poverty alleviation, and food provision. The agricultural sector's contribution to Indonesia's GDP in recent years has ranged between 12% and 13%, making it a significantly influential sector in the national economy.

However, this sector experiences fluctuations in growth due to seasonal factors and extreme weather conditions such as droughts and floods, which can adversely affect crop yields. Global climate phenomena like El Niño and La Niña also impact harvest outcomes. Nevertheless, sub-sectors such as livestock and horticulture demonstrate more stable performance, driven by increasing demand for animal-based products and export opportunities for fruits, vegetables, and ornamental plants. These trends highlight both challenges and potential within the agricultural sector.

The sector contributes notably to GDP through key commodities like rice, maize, and palm oil, which are processed into food, beverages, and biofuels. The processing industry alone accounts for approximately 19% of Indonesia's GDP. This contribution is also reflected in the increasing exports of commodities such as rubber, palm oil, and coffee, which support foreign exchange earnings and the overall economy. However, challenges such as international price volatility and trade barriers can affect the stability of this contribution.

2. Industrial Sector

The manufacturing sector exhibits a more stable growth rate compared to agriculture, with consistent growth over the past several years. This stability is driven by increasing domestic and foreign investment, which stimulates infrastructure development and production capacity, along with government incentives aimed at attracting investment. Furthermore, the adoption of new technologies, including automation and data analytics in production processes, has enhanced efficiency and productivity. Product diversification has also emerged as a key strategy for many industries to cater to the diverse needs of domestic and international markets, thereby maintaining the sector's competitiveness.

Manufacturing contributes approximately 19% to 20% of Indonesia's total GDP, reflecting several critical aspects. First, this sector does not merely process raw agricultural products but adds significant value—for instance, processing palm oil into refined palm oil and coffee into consumer-ready products. Second, the sector plays a role in creating efficient supply chains, using raw materials from agriculture that are processed and distributed to the market. In addition, processed products generally have higher export value compared to raw commodities, thereby contributing to foreign exchange earnings, with food and beverage exports serving as major drivers of the national economy.

3. Trade Sector

The trade sector plays a crucial role in distributing goods and services to consumers, contributing approximately 12% to 13% to Indonesia's GDP. Growth in this sector is influenced by consumer demand and global economic conditions. In recent years, the trade sector has shown resilience despite challenges posed by the COVID-19 pandemic, during which many businesses rapidly adapted by shifting to e-commerce platforms to reach customers. This shift created new opportunities, particularly for small and medium enterprises.

In addition to improving public access to a variety of products, the trade sector also contributes to job creation across various levels—from small traders to large companies involved in distribution and logistics. These commercial activities not only provide employment but also enhance workforce skills, thereby strengthening local economies. With its significant contribution to the economy and public welfare, the trade sector serves as a key pillar in supporting national economic growth, ensuring the continuity and accessibility of goods and services for the population.

4. The Role of Government in Sectoral Growth and Income Inequality

The Indonesian government has implemented various policies to support the growth of economic sectors, including agricultural subsidies, industrialization strategies, and trade promotion initiatives. Agricultural subsidies—such as fiscal incentives and vocational training programs—are aimed at increasing agricultural productivity and enhancing farmers' skills.

Industrialization policies, guided by the National Industrial Development Master Plan, focus on strengthening industrial capacity and human resource development. Trade promotion efforts, including initiatives like BIMP-EAGA (Brunei Darussalam–Indonesia–Malaysia–Philippines East ASEAN Growth Area) and the development of electric vehicle (EV) battery manufacturing plants, are designed to enhance global economic integration. However, these policies may have implications for income inequality, as the benefits are not always distributed evenly across urban and rural areas. Training programs can help mitigate inequality by improving workforce skills, while continuous evaluation of policy implementation is essential to ensure that the benefits are felt across all segments of society.

In addition, the Indonesian government has adopted a range of policies aimed at reducing socio-economic inequality. These include social assistance programs, improvements in education and healthcare quality, and the implementation of progressive taxation. Social assistance schemes such as the *Kartu Pra Kerja* (Pre-Employment Card Program) and *Program Keluarga Harapan* (Family Hope Program), as well as the *Jaminan Kesehatan Nasional* (National Health Insurance), provide support to low-income families and improve access to healthcare services. Efforts to enhance education quality involve curriculum reform and the development of school infrastructure, while public health improvements are supported through free immunization programs and upgraded medical facilities.

Progressive taxation policies place a higher tax burden on individuals with greater economic capacity, helping to improve income distribution. Collectively, these government policies aim to expand access to essential services for all social groups, with the goal of reducing inequality, alleviating poverty, and creating better opportunities for future generations. It is thus evident that the government plays a critical role in accelerating sectoral growth and in addressing income inequality through targeted and inclusive policies.

METHODS

This study employs a literature review method using secondary data to examine and analyze various studies relevant to the topics discussed. The secondary data were obtained from pre-existing sources, such as scholarly articles published in indexed journals and statistical data from official institutions such as Statistics Indonesia (*Badan Pusat Statistik*, BPS).

The selection of literature was based on specific criteria, including the publication within a certain time range, relevance to the topics of income inequality and sectoral growth, and having undergone a peer-review process. Studies that did not meet these criteria were excluded from the analysis.

Data collection procedures involved searching for literature through several academic databases, including Google Scholar and SINTA, using keywords related to the research topic. Once the relevant literature was gathered, the data were analyzed descriptively to summarize key findings and critically to evaluate the quality of methods and results from previous studies. This analysis was conducted to identify research gaps and major trends within the reviewed literature. To ensure validity and reliability, only literature from academically recognized sources was used, and the analysis was carried out systematically to minimize selection bias.

RESULT

Sectoral growth is one of the key drivers of economic development, particularly for the three largest contributors to Indonesia's GDP: the agricultural sector, the industrial sector, and the trade sector. However, despite the increasing growth in these sectors, income inequality remains an issue. Based on various theoretical studies, the following is an analysis of the influence of sectoral growth on economic inequality, with attention to the role of government involvement.

As the third-largest contributor to GDP, the agricultural sector has demonstrated relatively stable growth. As shown in the figure below, over the past ten years, the agricultural sector has experienced consistent and steady increases.

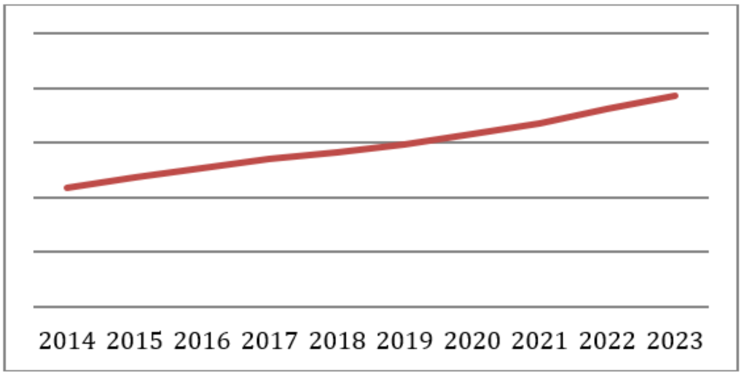

Figure 2. *Agriculture Sector Growth*
Source: Badan Pusat Statistik (2024)

Figure 2 shows the contribution of the agricultural sector to Indonesia's total GDP from 2014 to 2023. The data indicate a decline in the sector's share, from about 14% in 2014 to around 12% in 2023. This suggests that other sectors have experienced more significant and advanced growth compared to agriculture.

Next, for the trade sector, the data shows a trend of fluctuations that are relatively unstable compared to the agricultural sector. There are certain years in which this sector experienced a decline, although not significantly drastic.

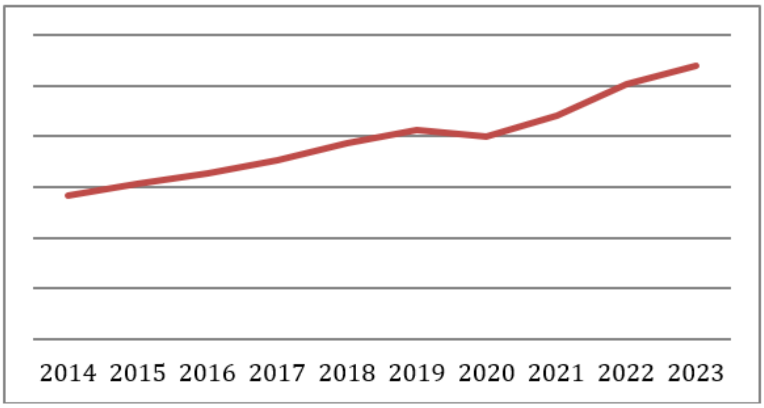

Figure 3. *Growth of the Trade Sector*
Source: Badan Pusat Statistik (2024)

Figure 3 illustrates the growth trend of Indonesia's trade sector. The sector experienced a decline in 2020 due to the impact of the COVID-19 pandemic. However, from 2021 to 2023, the trade sector showed a steady recovery with continuous growth.

Lastly, the industrial sector remains the top contributor to Indonesia's GDP. Over the past ten years, similar to the trade sector, the industrial sector has experienced fluctuations in growth, showing less stability compared to the agricultural sector, which has shown consistent growth. The following figure illustrates the industrial sector's growth in Indonesia over the past decade.

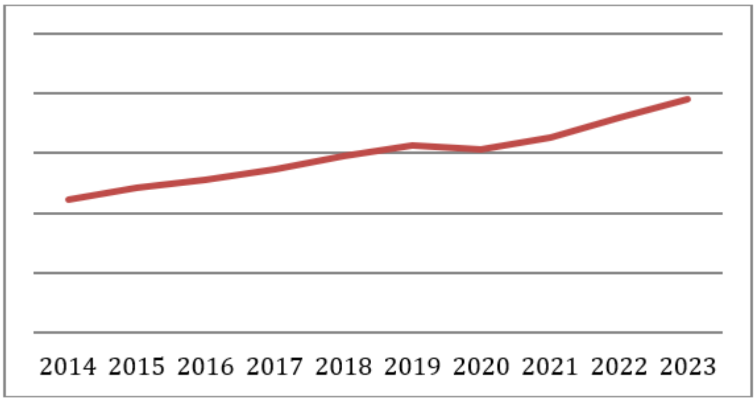

Figure 4. *Industry Sector Growth*
Source: Badan Pusat Statistik (2024)

Figure 4 shows the growth trend of Indonesia's industrial sector. The sector experienced a decline in 2020 due to the COVID-19 pandemic but recovered and grew again from 2021 to 2023. Despite this temporary decline, the industrial sector remains the largest contributor to Indonesia's GDP. For instance, it contributed 20% of total GDP in 2022, with a slight decrease to 18% in 2023.

DISCUSSION

The contribution of the agricultural sector is supported by key commodities such as palm oil, natural rubber, and food crops, which underpin exports and stabilize food prices. The growth of this sector helps distribute income more evenly, especially for rural communities that depend on agriculture. From 2014 to 2023, the agricultural sector's contribution to GDP remained stable, sustaining employment in rural areas and potentially reducing interregional inequality. Key export commodities such as palm oil and natural rubber have increased farmers' incomes, while food price stability—thanks to improved rice productivity—has enhanced the welfare of low-income populations.

Modernization of the sector through technology and innovations, such as high-yield crop varieties and agricultural mechanization, has further boosted productivity and farmers' competitiveness. This has the potential to expand market access and create new employment opportunities, which could gradually reduce income inequality. These findings are supported by previous research, such as the study Chakravorty, Chandrasekhar, and Naraparaju (2019), which found that a 1% increase in the agricultural sector leads to a 0.011% reduction in inequality, particularly from subsectors like food crops and plantations. Similarly, Yeboua (2024) that growth in the agricultural sector, especially the crop subsector, has the most significant impact on reducing income inequality in both urban and rural areas.

Therefore, it can be concluded that the agricultural sector can reduce income inequality, particularly through its food crop and plantation subsectors. Infrastructure and technology, which support the growth of this sector, can make productivity more efficient and enhance competitiveness, thereby opening broader employment opportunities—especially in rural areas, where most people work as farmers. As a result, income inequality across regions is expected to decline.

The trade sector ranks second among all sectors contributing to Indonesia's GDP, with a percentage of 12.8% in 2023. However, in terms of export contribution, the agricultural sector actually boosted goods and services exports by 24.49% in 2022. Additionally, in the same year, the trade balance recorded a surplus of USD 54.53 billion. This surplus was largely supported by three main trading partners: the United States (USD 18.89 billion), India (USD 16.16 billion), and the Philippines (USD 11.41 billion). This figure marked the highest surplus in history and serves as evidence that the trade sector significantly contributes to Indonesia's economic growth. To enhance the performance of the trade sector, the Indonesian government has implemented various strategies, including international trade agreements and export destination diversification. Examples include the CEPA agreement with South Korea and the RCEP, which came into effect in January 2023, as well as trade missions to non-traditional markets aimed at expanding export reach.

However, the impact of the trade sector on income inequality in Indonesia is complex. According to a study by Dorn, Fuest, and Potrafke (2021), trade openness can, on the one hand, increase inequality by worsening income distribution between regions. A panel data analysis of Indonesian provinces indicates that trade openness, foreign direct investment (FDI), and the GRDP ratio of the mining sector tend to increase income inequality at the provincial level. This is because regions more integrated with global markets and foreign investment tend to enjoy greater economic benefits, while less connected regions are left behind.

On the other hand, certain factors can reduce inequality. FDI and per capita GRDP growth have been shown to have a positive effect on reducing income inequality. An increase in per capita GRDP contributes to more equitable welfare improvements across provinces, thereby narrowing the income gap. FDI can also create new job opportunities and distribute economic benefits more broadly, positively impacting overall economic well-being. This argument is supported by other research, such as that conducted by Huang, Yan, Sim, Guo, and Xie (2021), which found that the trade sector does not directly affect income inequality reduction. Instead, it requires interaction with specific sectors and quality infrastructure to have an impact on inequality. Therefore, special attention to targeted policies is essential to ensure that the growth of the trade sector does not exacerbate inequality.

The growth of the industrial sector not only increases economic value and creates employment opportunities, but also strengthens consumer purchasing power, boosts productivity, and drives national economic growth. Moreover, the industrial sector attracts substantial foreign and domestic investment, especially in regions with good infrastructure, and plays a key role in diversifying Indonesia's economy, reducing dependence on agriculture and natural resources. However, the impact of the industrial sector on income inequality is complex. Industrial concentration in major cities tends to widen regional disparities, leaving remote areas behind. Nevertheless, this sector has the potential to reduce inequality if it integrates small and medium enterprises (SMEs), particularly in industries such as food and beverages.

The growth of the industrial labor force also contributes to income disparities, as industrial regions experience greater income growth compared to non-industrial regions. Improvements in the Human Development Index (HDI) also play an important role in reducing inequality, with higher HDI levels correlating with decreased income disparities. Efforts to improve HDI through better education and healthcare services can support a more equitable distribution of the benefits of industrial growth. Therefore, based on the analysis above, findings from previous studies such as those by Akidi, Nyeche, and Sanipe (2024), which suggest that industrial sector growth increases income inequality due to geographic concentration, can be addressed. Other contributing factors, such as SME participation and HDI levels, can help mitigate income inequality.

To further understand sectoral growth and income inequality, it is also essential to analyze the government's role in boosting the growth of the agriculture, industry, and trade sectors, as well as how the government addresses income inequality. The government indeed holds the authority to formulate policies that ensure sectoral growth does not coincide with rising income disparities. In the agricultural sector, the government implements specific pricing policies, such as fertilizer subsidies to boost farmers' productivity. Additionally, macroeconomic policies, including fiscal and monetary measures, influence food price stability and purchasing power. Food security programs like labor-intensive agricultural projects and financial support for farmers aim to strengthen domestic production and reduce import dependence.

In the industrial sector, the government provides regulations and incentives, such as tax breaks and licensing simplification through the Omnibus Law, to attract investment. One of the main focuses is industrial downstreaming, which promotes value-added domestic products and the creation of new jobs. This is essential for increasing household income, especially in urban areas with better infrastructure. In the trade sector, the government actively engages in international trade agreements, such as RCEP and CEPA with South Korea, to expand market access for Indonesian products. Additionally, marketing programs and interregional cooperation are being strengthened to ensure smooth distribution of agricultural and industrial products, thereby meeting both domestic and export market demands.

Nonetheless, the effectiveness of these policies in reducing income inequality varies. On one hand, subsidies and direct support programs for farmers have successfully increased their income, thereby reducing inequality with other sectors. Labor-intensive programs in agriculture and industry have also helped create jobs in rural areas, reduce unemployment, and improve community welfare. On the other hand, regional inequality remains a challenge. Industrial growth is often concentrated in major cities with better infrastructure and market access, while remote areas are left behind. Furthermore, many SMEs still face difficulties accessing markets and financing, which widens the gap between large enterprises and smaller businesses.

Therefore, it can be concluded that government policies in agriculture, industry, and trade have succeeded in enhancing productivity and economic competitiveness, but they need to be more inclusive so that the benefits are felt by all segments of society. Special attention must be given to equalizing growth across regions and improving access for SMEs to reduce income inequality more evenly.

CONCLUSION

Based on the explanation provided earlier, it can be concluded that sectoral growth in Indonesia has diverse impacts on income inequality. The agricultural sector, contributing 12% to GDP, plays a role in reducing rural inequality through increased productivity, food price stability, and government support such as subsidies and technological modernization, which help expand employment opportunities and narrow interregional disparities.

The trade sector, accounting for 12.8% of GDP, contributes to economic growth through increased exports and trade surplus. However, trade liberalization and investment tend to benefit regions that are more integrated into the global economy, thereby widening regional inequality. More equitable policies are needed to ensure broader distribution of the benefits from this sector.

The industrial sector, the largest contributor with 18% of GDP, tends to exacerbate income inequality due to its growth being concentrated in major cities. However, by improving access for small and medium enterprises (SMEs) and enhancing the Human Development Index (HDI), this sector can also help reduce inequality. The government plays a crucial role in ensuring inclusive growth through infrastructure development and equitable economic policies.

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