

CHAPTER I

INTRODUCTION

1.1 Background

Poverty is a complex and multidimensional global problem. Hari in Salsabila revealed that poverty in socio-psychological terms leads to lack of networks and social structures that can increase productivity. Tajikistan and Indonesia, are two developing countries with large populations with poverty still one of the main development challenges (D'Attoma & Matteucci, 2023).

Tajikistan is the smallest country in Central Asia with a population of about 9.8 million. The country is classified as a low-income country with a national poverty rate of 29.5% (2020). In Tajikistan, poverty is fueled by factors such as: Weak economy where Tajikistan is the smallest country in Central Asia with an economy dominated by agriculture, conflict and instability where Tajikistan experienced a five-year civil war (1992-1997) resulting in severe infrastructure and economic damage and Geography where Tajikistan is a mountainous country with limited access to basic services such as education and health.

While Indonesia is the largest archipelagic country in the world with a population of more than 270 million people. The country is classified as a lower-middle-income country While in Indonesia, poverty is triggered by factors such as: Income inequality i.e. Indonesia has a high level of income inequality, where the richest 10% of the population controls almost 40% of national wealth, Limited access to basic services where Many Indonesians still do not have adequate access to education, health, and clean water services and Natural disasters where Indonesia is a country prone to natural disasters such as earthquakes, tsunamis, and volcanic eruptions (World Food Programme, 2023).

Changes in economic structure are a symptom in the economy that occurs in the economy as a result of economic growth or increased welfare in society so that it will affect the level and pattern of public consumption. The process of economic development basically has four main dimensions, namely: (1) growth, (2) poverty alleviation, (3) economic change or transformation, and (4) sustainable development from an agrarian society to an industrial society (Nayyar, 2019).

The process of structural transformation does not mean that everything will go smoothly. A process that is happening will bring two consequences at once, namely the positive side and the negative side. One of the negative impacts of structural change is the increasing flow of urbanization. Structural transformation can work well if it is followed by equal distribution of

learning opportunities, a decrease in the rate of population growth, and a decrease in urban-rural economic dualism (Pratama, 2021).

The research period under study, focusing on the last 10 to 20 years, is chosen based on the data presented in Table 1.1 Economic Structure of Tajikistan, which outlines the changes in the economic structure of Tajikistan from 2012 to 2022. This period is significant for several reasons. Firstly, it encompasses a phase of post-Soviet transition and economic stabilization in Tajikistan, a time when the country underwent substantial structural changes in its economy. These changes are crucial for understanding the dynamics of poverty reduction in relation to structural economic transformations. Secondly, the period allows for the observation of trends over a meaningful timeframe, capturing the effects of various economic policies and global economic events on Tajikistan's economy. This includes shifts in the value added by different sectors to GDP, which is a key indicator of structural change. For instance, the data shows variations in the contributions of agriculture, industry, and services to the GDP, reflecting the economy's evolving structure. Lastly, analyzing the last decade or two provides a contemporary context, making the findings relevant for current policy-making. It offers insights into the recent economic history of Tajikistan, which is essential for formulating strategies aimed at further poverty reduction and economic development. This timeframe is also aligned with significant global and regional economic developments, including the impact of the global financial crisis, fluctuations in global commodity prices, and changes in regional economic dynamics, all of which have influenced Tajikistan's economic structure and poverty levels.

Table 1.1 Tajikistan’s Economic Structure

Year	Value added (% of GDP) - Tajikistan			GDP per capita (current US\$)
	Agriculture, Forestry, and Fishing	Industry	Service	
2002	22.2	35.1	33.1	186.7
2003	24.2	33.1	32.3	233.1
2004	19.2	30.9	39.3	305.3
2005	21.2	27.4	40.6	333.7
2006	21.5	27.4	40.9	401
2007	19.4	26.4	42.9	517.4
2008	19.9	24.6	43.9	704.7

2009	18.6	24.5	47	666.7
2010	19.6	25	45.1	740.3
2011	23.8	22.5	42.4	837.9
2012	23.3	22	43.5	959.4
2013	21.3	23.1	44.1	1038.3
2014	23.8	22.6	41.1	1094.4
2015	21.6	30.2	39.2	970.4
2016	20.9	32.2	37.2	801.4
2017	20.3	31.8	38.9	844.4
2018	19.8	34.4	36.7	850.7
2019	20.9	33.1	37.1	889
2020	22.7	33.8	35.3	852.3
2021	22.4	35.2	33.4	916.7

Source: World Bank

Analisis tabel 1.1

Table 1.2 Indonesia's Economic Structure

Year	Value added (% of GDP) - Indonesia			GDP per capita (current US\$)
	Agriculture, Forestry, and Fishing	Industry	Service	
2002	16.3	47.7	40.1	888.9
2003	15.2	43.7	41.1	1,052.4
2004	14.3	44.6	41	1,136.8
2005	13.1	46.5	40.3	1,249.4
2006	13	46.9	40.1	1,572.8
2007	13.7	46.8	39.5	1,840.3
2008	14.5	48.1	37.5	2,144.4
2009	15.3	47.7	37.1	2,239.1
2010	13.9	42.8	40.7	3,094.4
2011	13.5	43.9	40.6	3,613.8
2012	13.4	43.6	40.9	3,668.2
2013	13.4	42.6	41.5	3,602.9

2014	13.3	41.9	42.2	3,476.6
2015	13.5	40.0	43.3	3,322.6
2016	13.5	39.3	43.6	3,558.8
2017	13.2	39.4	43.6	3,839.8
2018	12.8	39.7	43.4	3,902.7
2019	12.7	39.0	44.2	4,151.2
2020	13.7	38.2	44.4	3,895.6
2021	13.3	39.8	42.8	4,334.2

Source: World Bank

Analisis tabel 1.2

This structural difference contributes to the disparity in poverty rates. While both countries reduced poverty, Tajikistan faces a bigger challenge with higher poverty levels and economic reliance on agriculture compared to Indonesia's more diversified economy. Examining Indonesia's development experience could provide insights for Tajikistan's poverty reduction efforts.

Table 1. 3 Tajikistan's and Indonesia's Poverty Level

Year	Poverty Rate (%)	
	Tajikistan	Indonesia
2002	66	18.2
2003	64	17.4
2004	60	16.7
2005	57.8	16
2006	55.7	17.8
2007	53.5	16.6
2008	47.8	15.4
2009	42	14.1
2010	45	13.3
2011	42	12.5
2012	37.4	12
2013	35.6	11.4
2014	32	11.3
2015	31	11.2
2016	30.3	10.9

2017	29.5	10.6
2018	27.4	9.8
2019	26.3	9.4
2020	29.5	9.8
2021	23.2	10.1

Source: World bank

Over the last decade, both Tajikistan and Indonesia have made strides in reducing poverty, albeit with varying degrees of success and challenges. In Tajikistan, the poverty rate has seen a notable decline, from 34.3% in 2013 to 26.3% in 2019, with remittances playing a significant role in this reduction. The inflow of workers' remittances, which accounts for a substantial portion of the GDP, has been a critical factor in alleviating poverty in the country. However, Tajikistan's economy remains vulnerable due to its high dependency on these remittances, an undiversified economy, and a high risk of debt distress. In contrast, Indonesia has experienced a more diversified economic transformation, which has contributed to a decrease in the poverty rate from 12.0% in 2012 to 9.5% in 2022. The country's efforts in developing its industrial and service sectors, improving access to education and health services, and implementing targeted poverty alleviation programs have been instrumental in this progress. Despite these improvements, both countries still face challenges, with poverty rates remaining high in rural areas and among certain population groups, indicating the need for continued and focused efforts to sustain poverty reduction.

By analyzing Indonesia's development strategies and policies, Tajikistan can gain insights into effective approaches for structural transformation and inclusive growth. For example, Indonesia has focused on developing its industrial and service sectors, improving access to education and health services, and implementing targeted poverty alleviation programs. Tajikistan could adapt relevant aspects of Indonesia's experience to its own context. Furthermore, as developing countries, Indonesia and Tajikistan face some similar challenges such as regional disparities, vulnerability to economic shocks, and the need to upskill the workforce. Examining how Indonesia has tackled these issues can provide valuable lessons for Tajikistan. At the same time, the comparison highlights the unique circumstances and constraints of each country, underscoring the need for Tajikistan to craft its own tailored development strategies.

From the description of the problem above, to find out the structural changes made by the State of Tajikistan and Indonesia in overcoming poverty, researchers are interested in studying it in a study entitled "Structural Change And Poverty Reduction In Tajikistan And Indonesia"

1.2 Research Scope

The study will identify and compare the structural factors that have contributed to poverty reduction in Tajikistan and Indonesia. This may include aspects such as productivity growth, human capital development, infrastructure investment, and social protection measures. By analyzing the experiences of both countries, the research aims to draw lessons and insights that can inform future poverty alleviation strategies. Overall, the scope of this study is designed to provide a comprehensive understanding of the interplay between structural economic changes and poverty reduction in Tajikistan and Indonesia. By focusing on these key areas, the research seeks to generate evidence-based findings and recommendations that can support more effective policies and interventions for inclusive development.

1.3 Research Problem

Based on this and referring to the background, the researcher formulated the problem as follows:

1. How the poverty rate change over time in Tajikistan and Indonesia during 2002-2021?
2. Is there any evidence indicates the structural change in Tajikistan and Indonesia?
3. Does structure change effect to poverty rate?
4. What lesson may Tajikistan learn from Indonesia?

1.4 Research Purposes

From the formulation of the problem above, the objectives to be achieved in this study are as follows:

1. To analyse the changes in the poverty rate in Tajikistan and Indonesia from 2002 to 2021 – These addresses how poverty rates evolved in both countries during this period.
2. To investigate the evidence of structural changes in Tajikistan and Indonesia – This examines whether significant structural shifts have occurred in both countries' economies during the studied period.
3. To assess the impact of structural changes on poverty rates in Tajikistan and Indonesia – This aims to understand whether and how changes in the economic structures of both countries have influenced their poverty levels.

4. To derive lessons from Indonesia's poverty reduction strategies that can inform future policies in Tajikistan – This explores how Indonesia's experiences can provide valuable insights for Tajikistan's poverty reduction efforts.

1.5 Benefits of Research

- a. Practical Benefits

This study offers several practical benefits. Firstly, it will inform policymakers in Tajikistan about effective strategies to accelerate poverty reduction through optimizing structural economic changes, drawing from Indonesia's relevant experience. By examining the successful policies and programs implemented in Indonesia, Tajikistan can adapt and apply these insights to its own context. Secondly, the findings of this study will guide the design and implementation of targeted poverty alleviation programs in Tajikistan that account for its unique context and development challenges. By understanding the specific factors that contribute to poverty in Tajikistan and the structural changes needed to address them, policymakers can develop more effective and tailored interventions.

- b. Practical Benefits

In addition to its practical implications, this study also contributes to the theoretical understanding of the relationship between structural change and poverty reduction in developing countries. By employing a comparative case study approach, the research will enrich the academic literature on this topic, providing valuable insights into how different patterns and paces of structural transformation can lead to varied poverty outcomes. Through examining the contrasting experiences of Tajikistan and Indonesia, the study will shed light on the complex dynamics between economic structure, growth, and poverty alleviation. This enhanced understanding will serve as a foundation for future research and policy discussions in the field of development economics.