Cluster Analysis of Inclusive Economic Development Using K-Means Algorithm

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ABSTRACT

This study aims to cluster 38 Districts/Cities in East Java based on the 10 forming indicators of inclusive economic development and to determine the inclusive economic growth of Districts/Cities above or below the total average. 10 indicators used in this study are GRDP per capita, GRDP by business field, Labor force participation rate, Unemployment rate, Gini ratio, Expenditure per capita, the number of poverty, Life expectancy, expectation years of schooling, and mean years of schooling. There are 3 scenarios in this study, namely 2 clusters, 3 clusters, and 4 clusters. The method of clustering in this study is using the K-means algorithm. This study uses the silhouette coefficient to evaluate the best cluster of 3 scenarios. The best k-means algorithm in this study is using 2 clusters with a silhouette coefficient of 0.87. There are 29 Districts/Cities included in cluster 1 with inclusive economic development below the total average and 9 Districts/Cities included in cluster 2 with inclusive economic development above the total average. The members of cluster 1 are mostly district areas and located in coastal or border areas and the members of cluster 2 are mostly urban or industrial areas.

A. INTRODUCTION

Cluster analysis is part of the statistical method, which is included in the family of multivariate analysis. Cluster analysis is part of grouping analysis which aims to determine the results of separating objects from a population based on quantitative comparisons of several characteristics used (Webster, 2021). In other words, cluster analysis aims to partition the data into several groups based on the similarity of the measured characteristics. The algorithm in cluster analysis works to find new groups based on the pattern of the data used (Jain, 2010). Broadly speaking, cluster analysis has 3 main objectives, namely 1) the formation of basic structures used to identify prominent features or groups, 2) natural classification used to identify the degree of similarity of organisms (phylogenetic relationships), 3) compression used to organize or summarize the data through the prototype cluster (Jain, 2010).

There are two methods in the cluster analysis, namely hierarchical and non-hierarchical. The stages of the hierarchical method are starting from a large cluster and correcting cluster members, then merging similar cluster members into a new group. In other words, this hierarchical method creates clusters from a large group into several smaller groups (Jain, 2010), (Xie et al., 2019). In the non-hierarchical method, the number of clusters is determined first, then looking for cluster members based on the distance, which has the same characteristics (Xie et al., 2019). The most popular hierarchical method is average linkage, and the most popular non-hierarchical method is the k-means (Jain, 2010).

Based on the descriptions above, the k-means algorithm is the most widely used. Several previous studies have shown that the k-means algorithm provides ease of implementation, simple analysis, efficiency, and has good performance (Jain, 2010), (Xie et al., 2019), (Qureshi and Ahamad, 2018). The k-means algorithm has been used in several disciplines. In its development, cluster analysis
has been used in information technology and information systems, for example, it has been applied to cloud computing (Sharma and Bala, 2020) and cellular network site management (Gbadoubissa et al., 2020). In health, a k-means algorithm has been used to group mutations of the coronavirus (Hozumi et al., 2021). In ecology, a k-means algorithm has been used to determine the spatial pattern and the relationship between controlling factors and toxic elements in the topsoil (Xu et al., 2021). In the economy, a k-means algorithm has been used to partition the open unemployment rate in the South Sulawesi Province (Akramunnisa and Fajriani, 2020).

This study uses the k-means algorithm to cluster inclusive economic development data in East Java. In contrast to the study that has been done by (Akramunnisa and Fajriani, 2020), this study uses 3 scenarios to get the best cluster and has an additional stage that is used to evaluate the cluster results. The method to evaluate the best cluster in this stage is using the silhouette coefficient (Naghizadeh and Metaxas, 2020).

Inclusive economic development aims to create equitable access and opportunities for all levels of society, improve welfare, and reduce the gap between regions. Inclusive economic development is divided into 3 Pillars, namely Pillar 1 concerning economic growth and development, Pillar 2 relates to income distribution and poverty reduction, and Pillar 3 is an opportunity and expanding access. These 3 pillars are used to measure and monitor the level of inclusiveness of development in Indonesia, both on a national and regional scale (Agency, 2021). The higher the percentage of achievement of these 3 pillars, the more inclusive the development will be, thus the more prosperous the population (Statistics-East Java, 2020), (Hapsari, 2019), (Setianingtias et al., 2019). The inclusive economic development index is one of the benchmarks for the success of a region in the welfare of its population. It is known that in 2019, East Java was generally above the national inclusive economic development index. Pillar 1 index of inclusive economic development is 5.72 and national is 5.48, Pillar 2 has an index of 6.56 and national of 6.57, Pillar 3 has index of 7.28 and national is 6.09 (Agency, 2021). However, not all Districts/Cities in East Java have a level of development above the national inclusive development. Therefore, it is necessary to group Districts/Cities based on indicators forming the East Java inclusive development index to provide an overview of which Districts/Cities have high and low inclusive economic development indexes. The formation of this cluster is expected to provide useful information and can be used as a basis for making efforts to improve the quality and quantity of the indicators forming the inclusive development index in East Java Province, especially for Districts/Cities with indicators lower than the global achievements of East Java Province.

B. LITERATURE REVIEW

K-means algorithm is one of the most frequently used partition-based algorithms for clustering (Jain, 2010). K-Means algorithm studies each object in the data and forms partitions called clusters, representation the members in each cluster having similar characteristics. If the data used is continuous, each cluster is represented by a centroid which is the mean of the cluster members. In categorical data, each cluster is represented by a medoid, which is the object that occurs most frequently. K-Means uses squared Euclidean distances as a measure of similarity for cluster membership (Patel and Kushwaha, 2020). The formula of squared Euclidean distances is:

\[ d(x_i, x_k) = \sum_{j=1}^{p} (x_{ij} - x_{kj})^2 \]  

where \( x_{ij} \) is the \( i \)th object in the \( j \)th variable, \( i = 1, 2, \cdots, n \), \( j = 1, 2, \cdots, p \) (the data dimension is \( n \times p \), and \( x_{kj} \) in the k-means clustering is the value of \( k\)th centroid, \( k = 1, 2, \cdots, r \) (Gbadoubissa et al., 2020). So \( x_{kj} \) can be replaced with \( c_{kj} \) and the formula is (Kakushadze and Yu, 2017):

\[ c_{kj} = \frac{1}{n_j} \sum_{i=1}^{n_j} x_{ij} \]  

The goal of the k-means algorithm is to minimize the sum of the square errors (SSE) of all clusters formed (Jain, 2010), (Gbadoubissa et al., 2020). SSE can be written as follows:

\[ SSE = \sum_{i=1}^{n} \sum_{k=1}^{r} w_{i,k} \| x_i - c_k \|^2 \]  

where \( w_{i,j} \) has 2 values, 1 if \( x_i \) is in the \( k\)th centroid and 0 if \( x_i \) is not in the \( k\)th centroid (Patel and Kushwaha, 2020). The k-means algorithm has the following stages (Gbadoubissa et al., 2020): Input : \( X_{n \times p} \) and \( r, r \geq 2 \) Output : \( r \) clusters \( \{c_1, c_2, \cdots, c_r\} \) with members of each cluster.
1. Select \( r \) cluster centroids randomly \((c_1, c_2, \ldots, c_r)\)  
2. Repeat  
3. For each \( x_i \) in \( X_{n \times p} \) do  
4. For all centroids \( c_k, 1 \leq c_k \leq r \) do  
5. If \( \|x - c_k\| < \|x - c_l\|, k \neq l, 1 \leq k, l \leq r \) then  
6. Assign \( x \) in \( c_k \)  
7. End if  
8. End for all  
9. End for each  
10. Calculate the latest centroids for each cluster  
11. Until the objective function (SSE) is minimized  

Based on the pseudocode above, the iteration of cluster formation will stop when the objective function (SSE) is minimum so that the cluster formation process is followed by drinking SSE (Jain, 2010). Evaluation of cluster formation from the k-means algorithm can use a silhouette coefficient. The silhouette coefficient is used in the optimization process of cluster formation to get the best number and members of the cluster (Naghizadeh and Metaxas, 2020). The algorithm of the silhouette coefficient has the following stages:  
1. Calculating the mean distance between objects in the same cluster  
\[
\alpha_k = \frac{1}{n_j - 1} \sum_{i=1}^{n_j} (x_i - x_{ii})^2  
\]
(4)  
2. Calculating the mean distance between objects in different clusters and find the minimum  
\[
\beta_k = \min_{1 \leq j \leq n_j} \sum_{i=1}^{n_j} (x_i - x_{ii})^2  
\]
(5)  
3. Calculating the silhouette coefficient  
\[
s = \begin{cases} 
\frac{\beta_k - \alpha_k}{\max(\alpha_k, \beta_k)} & c_k > 1; \\
0 & c_k = 1 
\end{cases}  
\]
(6)  
4. Determining the mean of the silhouette coefficients obtained.  

C. RESEARCH METHOD  
This study will group Districts/Cities in East Java based on the inclusive economic development index. This study uses 2 sub-pillars for each pillar with details, 4 indicators on pillar 1, 3 indicators on pillar 2, and 3 indicators on pillar 3. The data used is secondary data obtained from BPS East Java. The details of the data used are as follows:  

<table>
<thead>
<tr>
<th>Pilar</th>
<th>Sub Pilar</th>
<th>Variable</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth and Development</td>
<td>Economic Growth</td>
<td>( X_1 )</td>
<td>GRDP per capita</td>
</tr>
<tr>
<td></td>
<td></td>
<td>( X_2 )</td>
<td>GRDP by business field</td>
</tr>
<tr>
<td></td>
<td>Employment Opportunity</td>
<td>( X_3 )</td>
<td>Labor force participation rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>( X_4 )</td>
<td>Unemployment rate</td>
</tr>
<tr>
<td>Income Equity and Poverty Reduction</td>
<td>Inequality</td>
<td>( X_5 )</td>
<td>Gini ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>( X_6 )</td>
<td>Expenditure per capita</td>
</tr>
<tr>
<td></td>
<td>Poverty</td>
<td>( X_7 )</td>
<td>The number of poverty</td>
</tr>
<tr>
<td>Expansion of Access and Opportunities</td>
<td>Health</td>
<td>( X_8 )</td>
<td>Life expectancy Mean years of schooling</td>
</tr>
<tr>
<td></td>
<td>Education</td>
<td>( X_9 )</td>
<td>Expectation years of schooling</td>
</tr>
<tr>
<td></td>
<td></td>
<td>( X_{10} )</td>
<td>Mean years of schooling</td>
</tr>
</tbody>
</table>

This study uses the k-means algorithm to form clusters of Districts/Cities based on the indicators in Table 1. The stages in this analysis are as follows:
1. Specifies the number of clusters. This study uses 3 scenarios, namely using 2, 3, and 4 clusters
2. Choosing an initial centroid randomly
4. Defining new group members.
5. Calculating new centroid
6. Repeating process c to e until there is no change in the members of each cluster and the minimum SSE is obtained
7. Generating cluster members in each scenario
8. Evaluating the cluster formed based on the silhouette coefficient
9. The best scenario is chosen based on point h.

D. RESULTS AND DISCUSSION

1. The Results K-means Algorithm

This study uses 3 scenarios to get the optimal and best cluster based on the objective function criteria and the silhouette coefficient. The first scenario uses 2 clusters, the second uses 3 clusters, and the third uses 4 clusters. Before analyzing, the 10 indicators of inclusive economic development are standardized first because those indicators have different units. The first stage is to select the centroids randomly. A selection of the centroids can be seen in Table 2 below.

### Table 2. Selection of Initial Centroids from Each Cluster

<table>
<thead>
<tr>
<th>Scenario</th>
<th>District/City</th>
<th>Variable</th>
<th>$X_1$</th>
<th>$X_2$</th>
<th>$X_3$</th>
<th>$X_4$</th>
<th>$X_5$</th>
<th>$X_6$</th>
<th>$X_7$</th>
<th>$X_8$</th>
<th>$X_9$</th>
<th>$X_{10}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (2 clusters)</td>
<td>Pacitan</td>
<td></td>
<td>26999.6</td>
<td>14968.4</td>
<td>79.55</td>
<td>0.95</td>
<td>71.52</td>
<td>12.61</td>
<td>7.19</td>
<td>75.86</td>
<td>0.35</td>
<td>8527</td>
</tr>
<tr>
<td></td>
<td>Surabaya</td>
<td></td>
<td>186738.9</td>
<td>538845.5</td>
<td>68.61</td>
<td>5.87</td>
<td>73.98</td>
<td>14.78</td>
<td>10.46</td>
<td>130.55</td>
<td>0.36</td>
<td>17157</td>
</tr>
<tr>
<td>2 (3 clusters)</td>
<td>Pacitan</td>
<td></td>
<td>26999.6</td>
<td>14968.4</td>
<td>79.55</td>
<td>0.95</td>
<td>71.52</td>
<td>12.61</td>
<td>7.19</td>
<td>75.86</td>
<td>0.35</td>
<td>8527</td>
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<td>73.98</td>
<td>14.78</td>
<td>10.46</td>
<td>130.55</td>
<td>0.36</td>
<td>17157</td>
</tr>
<tr>
<td></td>
<td>Bangkalan</td>
<td></td>
<td>24360.9</td>
<td>23846.7</td>
<td>63.11</td>
<td>5.84</td>
<td>69.94</td>
<td>11.58</td>
<td>5.33</td>
<td>186.11</td>
<td>0.29</td>
<td>8393</td>
</tr>
<tr>
<td>3 (4 clusters)</td>
<td>Surabaya</td>
<td></td>
<td>186738.9</td>
<td>538845.5</td>
<td>68.61</td>
<td>5.87</td>
<td>73.98</td>
<td>14.78</td>
<td>10.46</td>
<td>130.55</td>
<td>0.36</td>
<td>17157</td>
</tr>
<tr>
<td></td>
<td>Sampang</td>
<td></td>
<td>19726.4</td>
<td>19105.4</td>
<td>66.42</td>
<td>2.81</td>
<td>67.79</td>
<td>11.76</td>
<td>4.36</td>
<td>202.21</td>
<td>0.26</td>
<td>8569</td>
</tr>
<tr>
<td></td>
<td>Kediri City</td>
<td></td>
<td>447215.8</td>
<td>127716.8</td>
<td>64.6</td>
<td>4.22</td>
<td>73.38</td>
<td>14.96</td>
<td>9.91</td>
<td>20.54</td>
<td>0.33</td>
<td>11976</td>
</tr>
<tr>
<td></td>
<td>Batu City</td>
<td></td>
<td>76004.9</td>
<td>15640.9</td>
<td>71.01</td>
<td>2.48</td>
<td>72.37</td>
<td>14.04</td>
<td>8.77</td>
<td>7.89</td>
<td>0.33</td>
<td>12466</td>
</tr>
</tbody>
</table>

Based on Table 2, it is known that Surabaya is selected in all scenarios and Pacitan is selected in scenario 1 and scenario 2. The next stage is creating clusters and determining the members of each cluster based on Euclidean distance. The results of the k-means algorithm of 10 indicators of inclusive economic development are:

### Table 3. Membership of Each Cluster

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Cluster</th>
<th>Amount</th>
<th>Maximum Iteration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (2 clusters)</td>
<td>Cluster 1</td>
<td>29</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Cluster 2</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>2 (3 clusters)</td>
<td>Cluster 1</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cluster 2</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Cluster 3</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>3 (4 clusters)</td>
<td>Cluster 1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cluster 2</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Cluster 3</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cluster 4</td>
<td>21</td>
<td></td>
</tr>
</tbody>
</table>

The maximum iteration is based on the value of the objective function in the iteration. If SSE is used as an objective function and produces the smallest value, the cluster formation process is stopped (Gbadoubissa et al., 2020). Based on Table 3, scenario 2 reaches the optimum in the fourth iteration, and this is the least number of iterations of all the scenarios. Meanwhile, the first scenario has the most iterations, namely optimum in the sixth iteration. Based on the results of the iteration in Table 3, scenario 2 is the best.

The results of k-means clustering of inclusive economic development for all of the scenarios can be seen in the Figure 1.
Based on Figure 1, information about the last centroid of the 10 indicators of inclusive economic development can be obtained. If a centroid is negative, then the cluster members are below the total average and if a centroid is positive, then the members of a cluster are above the total average. From Figure 1, it is known that the last centroids between cluster 1 and cluster 2 of scenario 1 don’t have the same criteria. In other words, each indicator in cluster 1 and cluster 2 have a different value. For example, GRDP per capita in cluster 1 has a negative value, but in cluster 2 has a positive value. This result is not the same in scenario 2 and scenario 3. In scenario 2 and scenario 3, the last centroids have the same criteria. For example in scenario 2, GRDP per capita of cluster 1 and cluster 3 have the same criteria (both values are negative). The details of the final result for the cluster centroids are shown in Table 4.

![Final Cluster Centroids](image)

**Figure 1. Results of the Cluster Centroids**

From Table 4 and Figure 1, in the first scenario, the centroid values of the 10 indicators creating clusters in scenario 1 with scenario 2 are in different ranges. In the second scenario, there are several components whose centroid values are in the same range or intersect. For example, the centroid values for the Life Expectancy indicator in cluster 1 and cluster 2 are both above the total average. To determine the type or name of each group in each scenario, it can calculate the average of the resulting centroids in each indicator. Determination of the best scenario of k-means clustering in the grouping of Districts/Cities in East Java Province based on 10 indicators of inclusive economic development, the silhouette
2. Cluster evaluation with silhouette coefficient

The silhouette coefficient is one of the measurement criteria to determine the best number of clusters used in clustering (Corporal-Lodangco et al., 2014), (Naghizadeh and Metaxas, 2020). The results of the k-means clustering evaluation using the silhouette coefficient in the 3 scenarios used are:

<table>
<thead>
<tr>
<th>Scenarios</th>
<th>Silhouette Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (2 clusters)</td>
<td>0.87</td>
</tr>
<tr>
<td>2 (3 clusters)</td>
<td>0.72</td>
</tr>
<tr>
<td>3 (4 clusters)</td>
<td>0.79</td>
</tr>
</tbody>
</table>

The silhouette coefficient has a value from -1 to 1. There are 3 levels in the silhouette coefficient, namely \( s < 0.2 \) is a poor category, \( 0.2 \leq s \leq 0.5 \) is a fair category, and \( s > 0.5 \) is a good category (Naghizadeh and Metaxas, 2020), (Mooi et al., 2011). Table 5 shows that the silhouette coefficients generated from the three scenarios used in the k-means clustering analysis are more than 0.5, meaning that all scenarios produce a good number of clusters. Of the three scenarios, scenario 2 is the best k-means clustering analysis on the grouping of Districts/Cities in East Java based on an inclusive economic development index. The silhouette coefficient is 0.87.

Based on the results listed in Table 5, the k-means clustering analysis on the grouping of the inclusive economic development index in East Java is using 2 clusters. The results are as follows:

Table 6. Membership of 2 Clusters in the First Scenario

<table>
<thead>
<tr>
<th>Cluster</th>
<th>Amount</th>
<th>Districts/Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>29</td>
<td>Pacitan, Ponorogo, Trenggalek, Tulanganggung, Blitar, Kediri, Malang, Lumajang, Jember, Banyuwangi, Bondowoso, Situbondo, Probolinggo, Pasuruan, Mojokerto, Jombang, Nganjuk, Madiun, Magetan, Ngawi, Bojonegoro, Tuban, Lamongan, Bangkalan, Sampang, Pamekasan, Sumenep, Probolinggo City, Batu City</td>
</tr>
<tr>
<td>2</td>
<td>9</td>
<td>Sidoarjo, Gresik, Kediri City, Blitar City, Malang City, Pasuruan City, Mojokerto City, Madiun City, Surabaya City</td>
</tr>
</tbody>
</table>

Table 6 shows that 76% of Districts/Cities in East Java are in cluster 1. Based on Figure 1 and Table 4, cluster 1 is a group with most of the indicators that have a negative value centroid. Indicators in cluster 1 are GRDP per capita, GRDP by business field, unemployment rate, Gini ratio, expenditure per capita, the number of poverty, Expectation years of schooling, and Mean years of schooling. The low unemployment rate and the number of poverty indicate that unemployment and poverty in this cluster are better than in cluster 2. However, 6 of the other indicators that are lower than the total average suggest that inclusive economic growth is lower than cluster 2. Most of the Districts/Cities in cluster 1 are coastal and border areas in East Java, where most of the population work as farmers, fishermen, or laborers (Agency, 2021), (Statistics-East Java, 2020). Determination of the cluster’s name or type can see in the last centroids that result (Corporal-Lodangco et al., 2014), (Clayman et al., 2020). This study shows that the overall centroids in cluster 1 are lower than in cluster 2. Cluster 1, the average of all the indicators is lower than the total average of inclusive economic development indexes in East Java. Districts/Cities in cluster 1 are Pacitan, Ponorogo, Trenggalek, Tulanganggung, Blitar, Kediri, Malang, Lumajang, Jember, Banyuwangi, Bondowoso, Situbondo, Probolinggo, Pasuruan, Mojokerto, Jombang, Nganjuk, Madiun, Magetan, Ngawi, Bojonegoro, Tuban, Lamongan, Bangkalan, Sampang, Pamekasan, Sumenep, Probolinggo City, Batu City.

Based on the description in the paragraph above, cluster 1 in scenario 1 is a group where the average inclusive economic development index of the 10 categories used is below the total average. Then it can be said that cluster 2 is above the total average. Cluster 2 consists of big cities or industrial areas, namely Sidoarjo, Gresik, Kediri City, Blitar City, Malang City, Pasuruan City, Mojokerto City, Madiun City, Surabaya City.

E. CONCLUSION AND SUGGESTION

This study represents a situation of clustering Districts/Cities in East Java Province based on the economic inclusive development data. 76% of Districts/Cities are in cluster 1 and 24% are in cluster 2. Cluster 1 is a group of Districts/Cities with an inclusive economic development index below the total average of inclusive economic development index in Jawa Timur and cluster 2 is a
group of Districts/Cities with an inclusive economic development index above the total average. In other words, cluster 2 shows a higher inclusive economic growth than cluster 1.

Based on the descriptions above, k-means results can describe the spread of inclusive economic development in East Java. The results of this clustering can be used as a reference for local and provincial governments as a basis for policy/decision making in improving the quality and quantity of indicators for inclusive economic development, particularly in Districts/Cities with indicators of inclusive economic development below the total average.

REFERENCES


